PROJECT EVALUATION FINDINGS & RATINGS 1H 2015

European Bank
for Reconstruction and Development

www.ebrd.com

The Evaluation Department (EvD) at the EBRD evaluates the performance of the Bank's completed projects and programmes relative to objectives in order to perform two critical functions: reinforcing institutional accountability for the achievement of results; and, providing objective analysis and relevant findings to inform operational choices and to improve performance over time. EvD reports directly to the Board of Directors, and is independent from the Bank's Management. Whilst EvD considers Management's views in preparing its evaluations, it makes the final decisions about the content of its reports.

This report has been prepared by EvD and is circulated under the authority of the Chief Evaluator. The views expressed herein do not necessarily reflect those of EBRD Management or its Board of Directors. Responsible members of the relevant Operations team were invited to comment on underlying reports summarised in this review prior to publication. Any comments received will have been considered and incorporated at the discretion of EvD.

One Exchange Square

London EC2A 2JN

United Kingdom

Web site: www.ebrd.com

The *EBRD Summary of Project Evaluation Findings and Ratings 1H 2015* includes:

- Summary of results from evaluation validations of Banking project self-assessments (OPAVs) completed in 1H 2015
- The differences between Evaluation department ratings and operation staff ratings of projects
- A review of themes from the findings: state-owned infrastructure projects, policy dimensions, natural resources, transition impact and project preparation issues
- Individual summaries of each OPAV completed in the 1H 2015

Abbreviations

EvD	Evaluation department
OPA	Operation Performance Assessment
OPAV	Operation Performance Assessment Validation
SME	Small to medium size enterprise
TC	Technical cooperation
TI	Transition Impact

Definitions

Operation Performance Assessment (OPA) - Banking Teams are required to produce self-evaluations of the performance of all projects known as Operation Performance Assessments (OPAs). These are done on the basis of a template produced by the independent Evaluation Department (EvD), and submitted to Banking Management and EvD. While all OPAs are subject to some level of review by EvD, they are Management-owned documents.

Operation Performance Assessment Validation (OPAV) - OPAVs are ex post project-level performance evaluations prepared independently by EvD. OPAVs present EvD findings and ratings drawn from a range of mainly desk-based analysis and sources, particularly the OPAs. Validations are done on a random, annually determined sample of “evaluation ready” operations, and provide the project-level performance ratings which EvD then aggregates to produce a snapshot of overall institutional performance. EvD invites Management review and comments on all OPAVs and integrates comments where appropriate. No EvD endorsement of OPAs is either sought or provided; nor is any Management endorsement or agreement on OPAVs either sought or provided. OPAVs are solely an independent EvD product.

Overview

Among the Evaluation Department's core products are "Operation Performance Assessment Validations (OPAVs), which are ex post project-level performance evaluations prepared independently by EvD on the basis mainly of desk-based analysis and the mandatory self-evaluations prepared by operations teams. OPAVs are done on a random, annually determined sample of "evaluation ready" operations, and provide the project-level performance ratings which EvD then aggregates to produce a snapshot of overall institutional performance. OPAVs also seek to draw out project-specific findings and lessons of value for future operations, and which may be aggregated to provide broader insights about operational design and performance. EvD invites Management review and comments on all OPAVs and integrates comments where appropriate.

Between January and June 2015 EvD completed and circulated to Board and Management 32 OPAVs covering a wide range of projects approved between 2003 and 2013. This document provides Board and Management with brief summaries of these completed OPAVs, highlighting in particular any main design or performance features identified in the ex post evaluation process. The group of validations summarised here covers a broadly representative sample of operations, including sovereign and commercial loans and equity operations; most sectors are represented, as are 15 different countries of operation. That said, this is a limited sample and not statistically representative.

Use of TC with projects has been identified by both Board and Management as an area needing closer attention. Validations identified such issues as sponsor willingness to share costs; insufficient knowledge and implementation capacity at the executor level; inadequate reporting making it difficult to assess contributions and effects. One successful MSE lending facility summarised in this report benefitted from TC provided through the multibank framework for MSME lending.

The sample included 1 *highly successful*, 16 *successful* operations, 9 *partly successful* and 6 *unsuccessful* operations. Features of the more *successful* projects included:

- Expansion of a small food retailer into the regions resulting in increased market competition, increases in shares of private label, new and local products and high social impact
- A water and wastewater project built effectively on EU policy dialogue work and prior IFI investment ;
- An equity investment increased competition in a previously state-dominated insurance sector and resulted in some state ownership exits;
- A credit line targeted on woman-owned SMEs provided insights to improve a subsequent operation;
- A deposit insurance agency for banks which provided stability during the financial crisis with a steady deposit insurance coverage ratio above the target.

Unsuccessful projects had features such as:

- Integrity issues;
- High risks from dependency on failed projects;
- Lack of a supportive regulatory framework;
- Public sponsor's unwillingness to commit to restructuring.

The OPAV summaries contained in this report are arranged by sector. The first section of the report gives an overview of the quality of the underlying Operation Performance Assessments (OPAs, or self-assessments conducted by the operation teams) which are the subject of each EvD OPAV. This is followed by a review of the trend in rating differences between EvD and the Operations team. The second section seeks to capture selected operational insights, grouping these in themes where appropriate. Caution should be exercised in drawing larger conclusions from the limited sample size presented here.

OPA quality and ratings differentials

Summary of OPA quality

The high quality of Operation Performance Assessment (OPA) is important because the information provided there is used as a basis for the EvD desk based Validation (OPAV) and ratings. EvD reported on OPA quality and ratings in the 2014 Annual Evaluation Review, finding that all those submitted in 2014 (including those subject to Review, Validation or Operation Evaluation) were of good quality, with the majority scoring between 70-100 per cent when assessed using the quality checklist. Observations on OPA quality have been extracted from the pool of validations completed in the first half of 2015, reflecting some mixed quality, but a good effort made more generally by banking teams.

– “The OPA was detailed in many areas and provided a fair assessment of the project within the data constraints due to prepayment and project design. However, there is no mention of contributions from other departments and some data gaps made it difficult to provide an adequate validation. The level of detail on contribution of TC to the project was also quite basic.”

– “Good quality OPA, prepared with great care and commitment. All information available to the operation team was provided to EvD to facilitate the validation exercise.”

– “The OPA was incomplete and a few rounds of comments from EvD’s side were necessary to get a better picture of the project and its background. Notably, a TIMS report was not attached and there had been little discussion surrounding loan structure decisions, prepayment of the project or board discussion at approval. EvD however notes that the team made a fair attempt to address all the major comments raised by EvD.”

– “The OPA did a good job of presenting evidence and judgements about this difficult project and assigned the correct overall rating. The OPAV stresses some factors somewhat more than the OPA did and downgrades a number of the criteria ratings.”

– The OPA was a well written and a comprehensive assessment of the project, which included generally substantiated ratings, and highlighted issues that would be useful to future operations. The portfolio reporting was unusually detailed and offered additional evidence on the operation’s success; something which EvD would hope is taken on by other FI partners.

– The quality of the OPA was satisfactory. Unfortunately the borrower had limited reporting requirements in terms of operational and transition related data and information, which reduced the credibility of the OPA’s assessment.

Lack of evidence to support conclusions along with overly generous ratings overall remains an issue in a few of the OPAs subject to EvD OPAVs included in this report. In some cases, ill-defined benchmarks (particularly for older projects) led to generalised conclusions being drawn in the OPA. However, overall, EvD comments on quality of OPAs in the summaries show an appreciation of the level of detail provided and effort made.

Rating differentials between EvD and operation teams

Board and Management also remain interested in the disconnect ratio between self-assessed ratings by banking teams and EvD’s independent ratings.

Ratings gap comparison between OPAVs completed 1H 2015 and 2H 2014

A comparison of ratings from OPAVs completed in the first half 2015 with those completed in the second half of 2014 is shown in the charts below. The ratings gap is expressed by the rate of change (number of grades a criteria was increased or decreased), and the total percentage for each rate of change across all OPAVs completed in the respective periods. The gap for realised transition impact ratings increased slightly in the samples of projects subject to Validation when compared with the preceding half year, leading to a larger gap in overall transition impact ratings (and consequently overall project ratings). Risk to transition impact ratings were also increased by EvD slightly more in 1H 2015.

Figure 1: A comparison of ratings from OPAVs completed in the first half 2015 with those completed in the second half of 2014

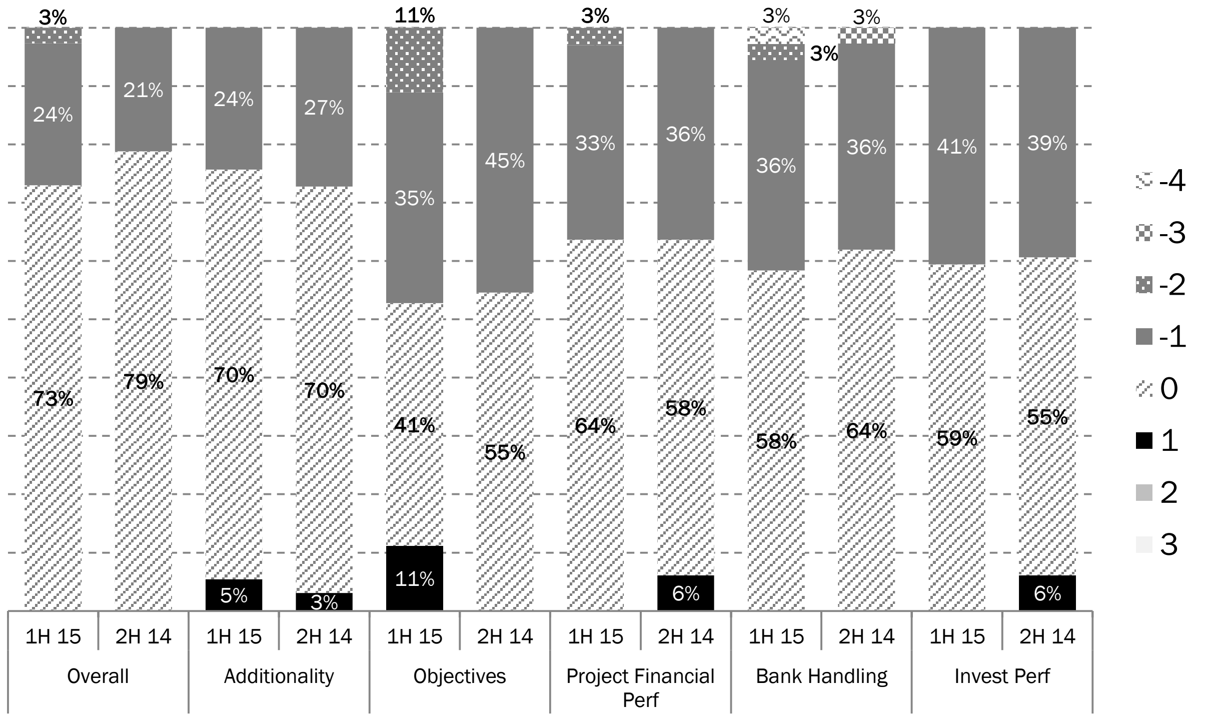
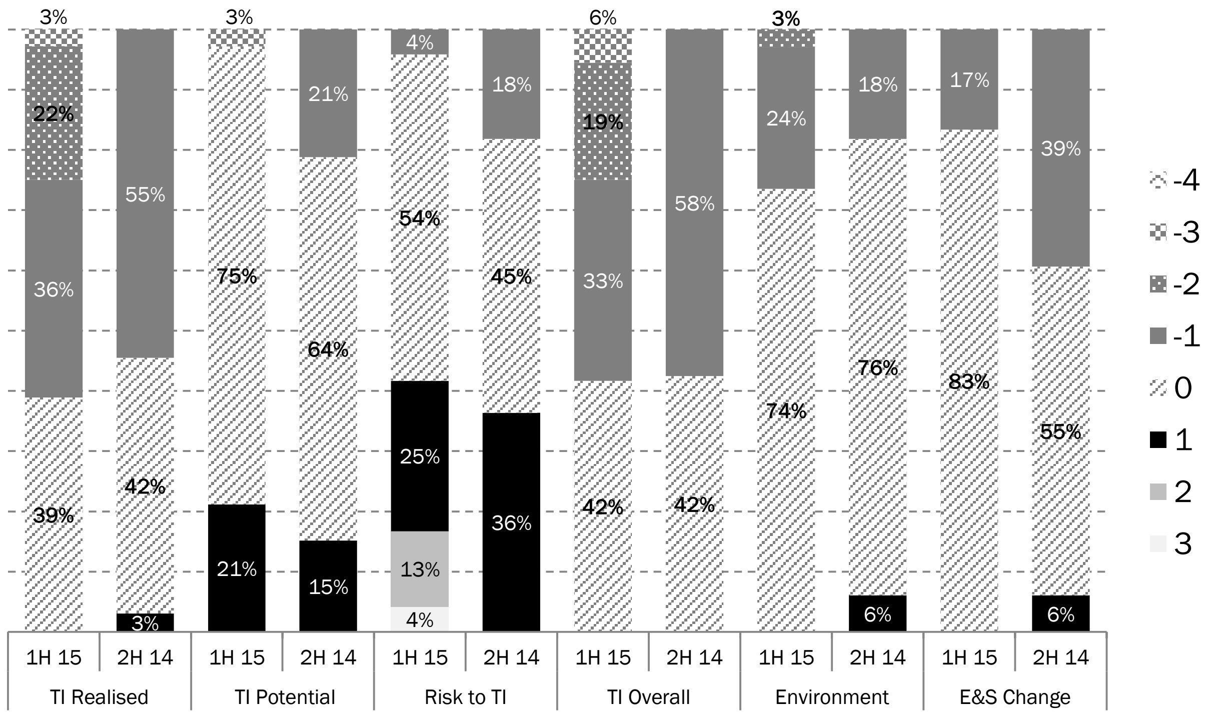


Figure 2: A comparison of ratings from OPAVs completed in the first half 2015 with those completed in the second half of 2014 (continued)



NB Risk to TI
increase is negative,
and decrease positive

Table 1: Ratings Gaps for Projects Evaluated by OPAV 1H2015 (ratings by no. of projects not reports)

Rate of change by EvD	Overall	Additionality	Objectives	Project Financial Perf	Bank Handling	Invest Perf	TI Realised	TI Potential	Risk to TI	TI Overall	Environment	E&S Change
3	0	0	0	0	0	0	0	0	1	0	0	0
2	0	0	0	0	0	0	0	0	3	0	0	0
1	0	2	4	0	0	0	0	5	6	0	0	0
0	27	26	15	21	21	19	14	18	13	15	25	10
-1	9	9	13	11	13	13	13	0	1	12	8	2
-2	1	0	4	1	1	0	8	0	0	7	1	0
-3	0	0	0	0	0	0	1	1	0	2	0	0
-4	0	0	0	0	1	0	0	0	0	0	0	0

Table 2: Ratings Gaps for Projects Evaluated by OPAV in 2H2014 (ratings by no. of projects not reports)

Rate of change by EvD	Overall	Additionality	Objectives	Project Financial Perf	Bank Handling	Invest Perf	TI Realised	TI Potential	Risk to TI	TI Overall	Environment	E&S Change
+2	0	0	0	0	0	0	0	0	0	0	0	0
+1	0	1	0	2	0	2	1	5	12	0	2	2
0	26	23	18	19	21	18	14	21	15	14	25	18
-1	7	9	15	12	12	13	18	7	6	19	5	13
-2	0	0	0	0	0	0	0	0	0	0	0	0

Ratings gap by year of OPA production

Ratings gap information has been presented above based on OPAVs delivered in the preceding half. However, this does not take stock of the year in which the OPA was completed, and can say little about year on year improvement or decline in OPA quality. Analysis based on the year of OPA production tracks more closely with the approach taken in the Annual Evaluation Review which took a broader look at OPA quality over longer periods of time. For analysis of the ratings gap based on the year of OPA production (as opposed to OPAV evaluations delivered in the last half year), see Annex 1. There is also a comparison of the binary ratings gap (where a movement in ratings occurs from positive to negative range of ratings) and ratings across the full rating scale (all ratings gaps).

Select operational findings

The OPAVs delivered in the first half of 2015 identify issues and themes that arise on a consistent basis. They include:

Project design issues: setting realistic indicators, benchmarks and timelines; need for a solid monitoring framework; the completeness of transition objectives;

Due diligence: Need for better assessment of sponsor/borrower commitment, market and regulatory conditions, and more thorough technical assessments

Policy dialogue issues: Need for targeted, complimentary and realistic objectives and sponsor commitment- with awareness of work by other IFIs and donors

The sections below seek to draw out some findings relevant to some of the OPAV themes identified.

State-owned infrastructure projects

Ten projects included in this group dealt with state owned infrastructure, all with some element of enhanced private sector participation, commercialisation or efficiency as a goal. Weak sponsor commitment was the biggest obstacle to success here (with more structured or successful policy dialogue also often being a missing link).

Overall performance ratings of these projects were mixed with 5 *successful,* 3 *partly successful* and 2 *unsuccessful*.

They included two rail projects, aimed at sector reform and commercialisation:

– One to renew passenger rolling stock with a labour restructuring programme (*partly successful*, with delivery of TC elements not achieved); and,
– Another to finance the procurement and installation of electrical power supply equipment for the national railway (*unsuccessful*, mainly due to lack of sponsor commitment).

Two water projects for rehabilitation of infrastructure were *successful.* These projects came against a background of IFI MEI interventions. However the EBRD projects aimed to specifically address issues such as water rationing issues and poor water supply infrastructure. Policy dialogue challenges were identified. Some gaps were identified in training and skill transfer for water companies.

One project, involving a loan to improve water, wastewater and district heating services provided by a municipal services company was only *partly successful* due to financial underperformance with company expenses exceeding revenues, high losses due to technical failures and project design flaws.

A first EBRD project in the subsector of municipal housing was a success, but suffered delays, site changes and a reduction in scope due to the local council and changing regulations. The project attracted interest from local commercial banks leading to a privately financed further phase.

The reports on public sector projects point to the importance of policy dialogue in bringing about sector reform and regulatory changes that can promote successful public sector project implementation. They also highlight the criticality of sponsor commitment to success:

– In the case of the water projects, TC operations for policy dialogue and sector reforms were not efficiently implemented as the counterpart (project implementation unit and water companies) had little experience and notion about transition impact. Therefore the EBRD did not manage to gain effective support from them and project outcomes remained mainly physical.

– For a public sector manufacturing and services project, the regulatory framework was found to be not optimal to implement the Energy Services Company (ESCO) model – a deficiency at due diligence phase. The company was never privatised and the ESCO market did not develop as expected.

– In one project, the EBRD was a catalyst in bridging the financing gap between the public and private sector and helping the City demonstrate the economic viability of its refurbishment programme. However delays were caused by the local council contradicting the loan agreement with regards to the implementing agency.

– A road development project aimed at encouraging cooperation with and strengthening of the state-level Ministry of Communications and Transport, but this was not achieved resulting in delays and the failure to adopt a transport strategy.

Selected policy dimensions

Policy challenges were identified in several projects highlighting the need for additional work in this area. In one project which aimed to upgrade a hydro-power dam an additional goal of the introduction of legislative framework for wind farm development was largely unachieved. To tackle the obvious challenges of encouraging change or sector reform through the governments of larger countries of operations, the EBRD project design should contain intermediary goals to lead to this ultimate goal (with TC support) such as drafting a law or approval, or identifying a project to be subject to it.

Projects dependent on support of key governments should contain elements of policy dialogue or improved communication with government counterparts to facilitate implementation. A key risk in one project that remained unidentified at appraisal was the dependency of cooperation from another country along with other financiers. The relevant sections of the road therefore remained incomplete, and regional integration has not been realized. This could have been mitigated through a more collaborative approach.

In another project involving procurement and installation of electrical power supply equipment for a national railway, key government cooperation was not forthcoming due to lack of communication with the government counterpart.

More structured policy dialogue, with benchmarks and a timeline would help to ensure continued government commitment. A particular challenge was encountered in a railway stock renewal and labour restructuring project where a guarantee agreement signed with the Ministry of Finance contained a covenant that the government would prepare and sign a PSO contract. However this did not materialize, and annual subsidies were continued.

Project outcomes were limited in the case of the water projects due to the lack of experience of implementation unit and water companies with policy dialogue. Also the government was susceptible to donor shopping due to the array of donors available and the incentive to commit to dialogue was therefore weakened.

Natural resources

Two Validations covered natural resources projects that were in corporate recovery, both of which were *unsuccessful*. Both projects had flaws at the design stage and could have been subject to better screening.

The first involved construction and operation of a marine support and supply base and a vessel maintenance facility, to support off-shore oil and gas development which failed to materialise. This highlighted the high risks associated with projects reliant on the success of others, particularly in speculative industries such as oil and gas. As a baseline, the other projects on which the proposal depends should at least have become an operational success.

The second project an equity investment in a precious and base metals mining company, whose core asset was a licence, with the goal of achieving successful listing within two years. Key integrity risks regarding the Sponsor were not identified or pursued fully during due diligence and were therefore not properly addressed.

Transition impact

Transition impact was weakened by some of the following factors, all aspects attributable to project design issues:

– Transition impact objectives being poorly designed. In one case expected transition was achieved prior to the project, and some objectives did not materialise, in some cases becoming unnecessary

– Weak causal links between TIMS benchmarks and the Bank project itself. In one project the TI objectives were not linked to the financial model. In another TI objectives could not clearly be attributed to the project, and should therefore not have been claimed as a project outcome.

– The client had no obligation to deliver on key transition impact indicators, due to lack of in-built enforcement mechanisms in the project design

– Transition impact was evidenced at the level of investee companies (for example setting standards) but was weak at the sector level (for example demonstration effect)

OPAV reflections on project preparation

This section summarises some findings from the OPAVs delivered in the first half of 2015 on project preparation, including due diligence and design, which can affect the potential impact of the project.

Overall project success was limited in projects where due diligence was inadequate, resulting in integrity issues, no appraisal of other projects impacting on the current proposal, lack of identification of high technical losses, and client commitment issues. In some cases, there was lack of consideration of the regulatory framework.

Monitoring designs were also sometimes deficient and not in line with benchmarks in the Board document. In other cases they were not carried out adequately due to, for example, lack of skills of the operation team in terms of procurement and inadequate handover of the project between seven operation leaders.

Agribusiness

Food producer

Equity and Loan

Description

This project involved an equity investment and loan to a market leader for fresh cut ready to eat salads, lettuce and vegetable mixes. The loan was prepaid and refinanced by the company shortly after disbursement.

Key findings

– The proceeds of the equity investment were to be used for construction and commissioning into operation of a new production plant, and the proceeds of the loan were expected to be used for the construction of a new salads and vegetables processing facility or for the company's working capital needs.

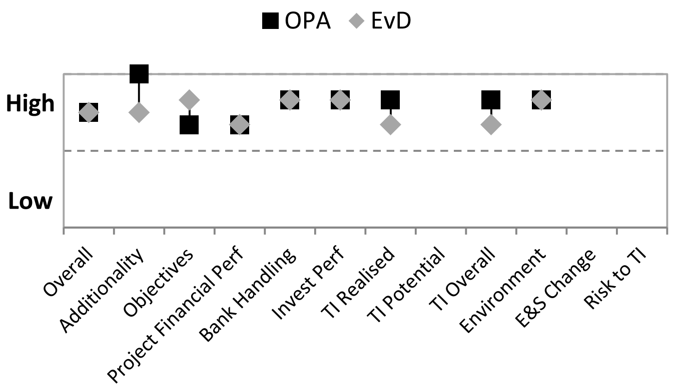
– With respect to transition impact, the equity finance, invested into a new plant, contributed to the company's increase in working with local farmers, providing agricultural extension services to improve the quality and yields. It has delivered some impacts in the expansion of markets, making fresh produce available to populations in new regions including through improved logistics.

– Other original expectations on transition impact either have not materialised or were no longer related to the Bank's finance, including the facilitation of standards through forward linkages or the improved quality and efficiency of own agricultural production.

Overall performance ratings

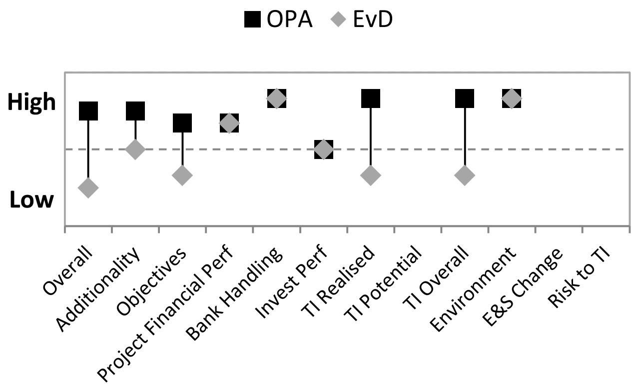
EvD–*Successful* OPA– *Successful*

Equity



EvD – Unsuccessful ▼ *OPA- Successful*

Loan



Reason for rating disconnect

EvD introduced more substantial split between the ratings of the loan and the equity components.

OPA quality observation

The OPA provides a good overview of the project and its developments. Ratings are generally adequately substantiated with evidence.

Supermarkets

Loan

Description

This project involved a loan to a mid-size regional chain of discount stores/supermarkets/hypermarkets for capital expenditure and expansion. A second project was a local currency loan which further boosted the client's growth through upgrading the large distribution hub and truck fleet. An energy audit inspired the client to install energy saving freezer displays. Store expansion reached remote regions. The number of stores increased and the network covered a few small settlement and towns with population below 20,000. Sales and net profit grew significantly above the local food retail market itself. The company has become listed in the top 10 largest food retail chains.

Key findings

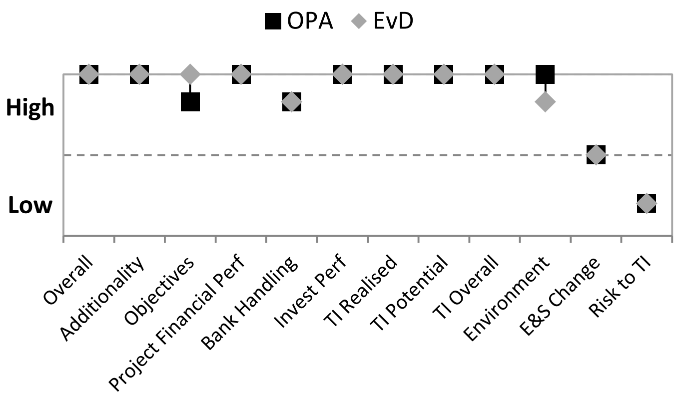
– Modern format retail stores were a major positive change for small settlements; social effects could have been better tracked and assessed. The client's geographic expansion strategy appeared to be risky and the expected transition impact was uncertain. However, it resulted in commercial success and good transition impact in terms of regional development.

– For a follow-on investment, sufficient time should be allowed to monitor the realised transition impact, digest and take account of the positive and negative lessons.

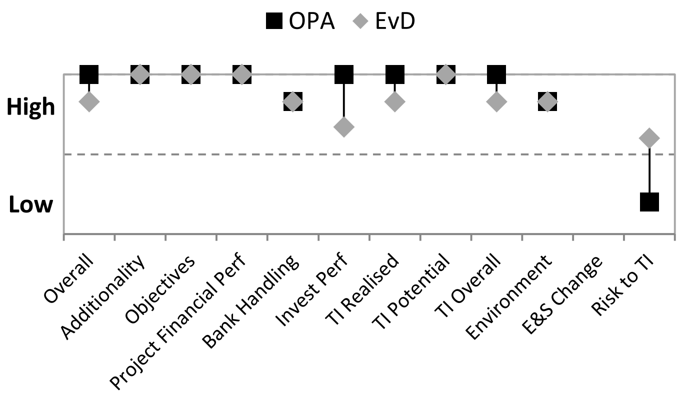
Overall performance ratings

EvD- *Highly Successful*   OPA- *Highly Successful*

A



B



Reason for rating disconnect

Rating disconnect is minimal. Substantive transition impact of the second project might need more time to emerge and the client's corporate governance could have been improved to keep abreast with other top players

OPA quality observation

The OPA was very well prepared with a great deal of specificity, leading to the key findings and lessons.

Edible oil producer 1

Loan, Private

Description

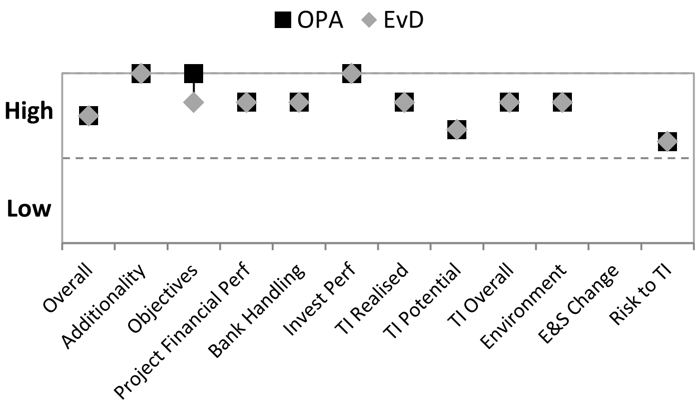
This project involved a loan to one of the largest crude oil producers in the country. The loan proceeds were used to finance the refurbishment of non-operational crushing facility for sunflower seeds and to finance working capital needs for the future capacity expansion.

Key findings

- Banking teams should incorporate more rigorous sensitivity scenarios in the financial models to accommodate extended commissioning delays. Loan structures in such seasonal business should incorporate a grace period of at least 18 months on principal repayments and teams should test the capabilities of the borrower to service its debt with cash generated from existing business lines in case that new investments are delayed.
- Commodity price fluctuations are determined by market forces and are impossible to predict, for this reason, it should be best practice for teams to structure working capital facilities with an automatic buffer, which would increase or decrease the size of the committed short-term loan depending on fluctuations in commodity prices.

Overall performance ratings

EvD – *Successful*, OPA – *Successful*



Reason for rating disconnect

The downgrade from *excellent* to *good* regarding the achievement of operational objectives is due to the fact that the project was completed with 4-month delay and a small cost overrun, therefore a rating of *good* deemed more appropriate.

OPA quality observation

The OPA submitted by the operation team was completed including latest financial and monitoring reports. The team provided useful comments in hindsight of elements that could have been reconsidered.

Edible oil producer 2

Private, Loan

Description

This project involved a working capital loan to a large soft commodity trader and edible oil producer, to enable it to purchase larger volumes of sunflower and soya bean for trading, following previous projects with the client. TI was to be derived from market expansion through backward linkages to local farmers and knowledge transfer. After one year, the Group decided to consolidate its all working capital loans under one facility. The Bank was invited to participate but declined. The Group pre-paid the working capital loan and reapplied for an investment loan.

Key findings

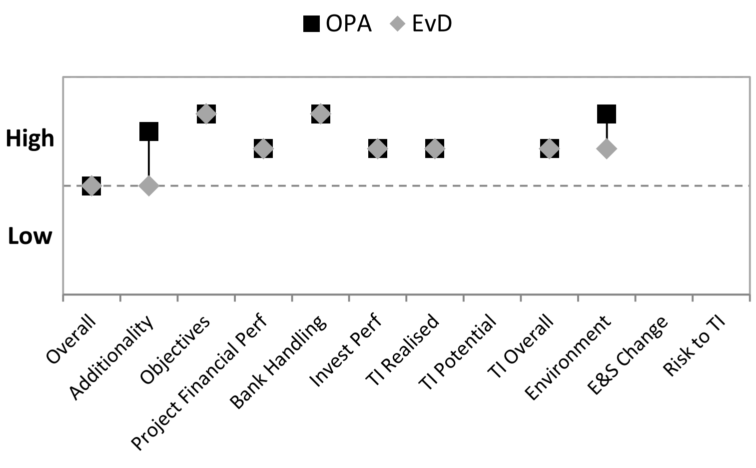
– *Fluid nature of financing needs of agri-trading companies and Bank's ability to respond to them*: EBRD is able to flexibly react to its clients' needs. Earlier repayment of working capital financing may be justified if local availability of such financing improves, while the Bank's funds can be better employed for capex or acquisition of vital infrastructure.

– *Improving availability of short-term working capital financing in the Bank's region*: Selectivity and thorough local market analysis are required to ensure success of working capital financing and avoid pre-payments.

– *Importance of having an alternative lender when considering parallel financing:* When contemplating parallel financing, it is important to ensure that the parallel lender has the knowledge and experience to provide such financing in a timely manner, or is prepared to accept EBRD's due diligence. Moreover, it is advisable to have an alternative financier lined up, in case the initially envisaged co-lender fails to provide such financing.

Overall Performance ratings

EvD – *Partly Successful* OPA – *Partly Successful*



Reason for rating disconnect

Two categories (Additionality and Environmental Performance) were downgraded, first due to an early pre-payment, which demonstrated limited additionality of the Bank's working capital loan, the second as due to the project's short life its impact was limited. Out of 8 actions listed in the environmental and social action plan, only half (four) were achieved.

OPA quality observation

Good quality OPA with generally adequate ratings and justifications.

Agricultural cooperative

Private, Loan

Description

This project involved a loan to a mulit-national agricultural cooperative to support acquisition of a local company with port terminal facilities. The cooperative planned to increase business in multiple regions of the EBRD's operations.

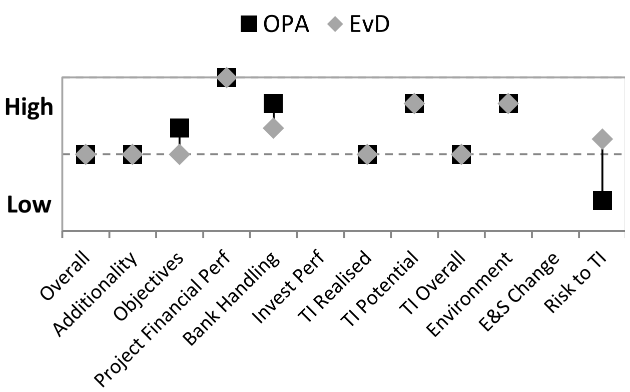
Key findings

- The port terminal's post-acquisition throughputs initially decreased but then its performance started to improve. Turning the terminal around took the cooperative longer than expected.
- The client had no obligation to supply key operational / TI indicators resulting in insufficient information on which to assess project impact.

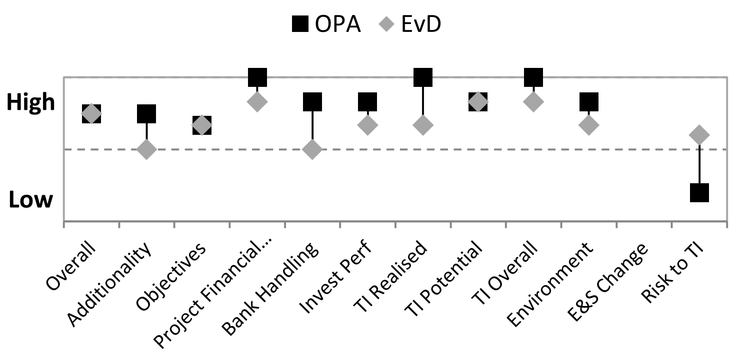
Overall performance ratings

EvD - *Successful* OPA- *Successful*

Agribcultural cooperative



Port Terminal



Reason for rating disconnect

Rating disconnect occurred across most of criteria while the overall rating is the same.

Additionality: The OPA *fully verified*, but EvD did not concur to the financial additionality and considered that it derived solely from hedging political risk for the port sector.

Project financial performance: The OPA rated *excellent* stating a strong recovery from a low point. EvD rated *good* because the trend was upward for only one year.

Bank handling: The OPA rated *good*. EvD noted that the environmental due diligence was not conducted during appraisal as it was set to be conducted after the Board approval. But it did not happen as verified by EvD.

Transition impact: The OPA rated *excellent* which compares with *good* by EvD. Most of TI benchmarks were mainly set at the output level and little outcome or behavioural change in the port terminal is demonstrated in the OPA although it is plausible.

Environmental and social performance: The OPA rated *good* with substantial changes to the environment while EvD rated *satisfactory* having reviewed the report from the port terminal. The extent of change could not be determined as there was no appraisal site inspection.

OPA quality observation

The quality of the OPA was satisfactory. Unfortunately the borrower had limited reporting requirements in terms of operational and transition related data and information, which reduced the credibility of the OPA's assessment.

Farming 1

Private, Loan

Description

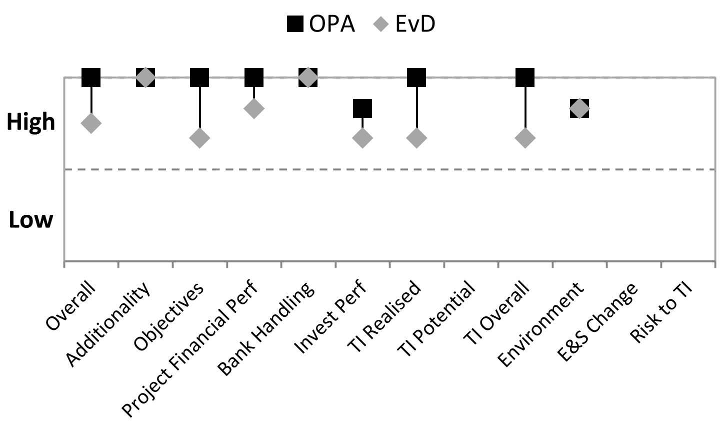
This project involved a financing facility for a farming subsidiary of an international property fund. The funding was to be on-lent to the farms to finance their pre- and post-harvest working capital needs in future seasons.

Key findings

- EvD found limited evidence of additionality through Bank conditionalities on for example IFRS, and also the envisioned special TC for implementing sustainable agriculture was never commissioned by the Bank.
- The benchmark used in the OPA does not allow a conclusion to be made on the fulfilment of the core operational objective.
- Bank structuring on the project was recognised for sufficiently identifying and mitigating the potential high risks associated with the client, sector and country.
- There were weak causal links to the project of several of the benchmarks utilised in the Transition Impact Monitoring System, which the company appears to have undertaken in parallel but separate to the Bank project.

Overall performance rating

EvD – *Successful* OPA – *Highly Successful*



Reason for rating disconnect

OPA does not allow a conclusion to be made on the fulfilment of the core operational objective and EvD rates transition impact *satisfactory*, due to insufficient evidence to substantiate the *excellent* transition impact rating of the OPA.

OPA quality observation

The OPA provides a thorough overview of the project and its developments, however justification and evidence base for ratings, especially concerning the transition impact assessment, could have been improved.

Farming 2

Private, Loan

Description

This project involved a loan to a farming subsidiary of a food producer in central and eastern Europe. The operational objective of the project was to support the company's existing business through (i) balance sheet restructuring; (ii) capex financing of new investments in drip irrigation system and electric substation modernisation; and (iii) provision of working capital.

Key findings

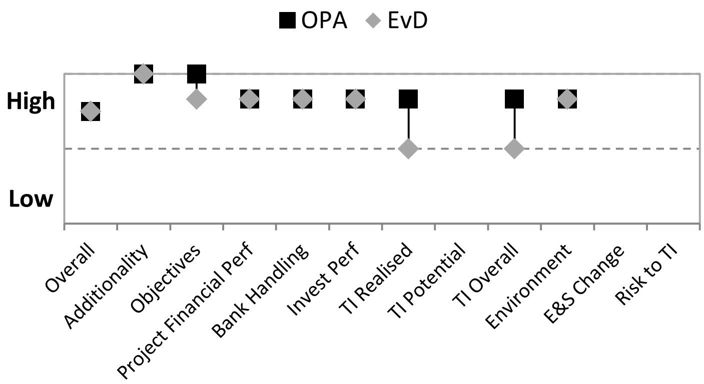
– The transition impact of the project was supposed to originate from: (i) setting standards for business conduct – the project intended to improve performance in resource efficiency; (ii) transfer and dispersion of skills – the project planned to train staff and trainings were also to be extended to third-party farmers to improve their yields and competitiveness.

– EvD rates the project *successful*, based on *fully verified* additionality, *good* achievement of operational objectives and financial performance, and *good* environmental and social performance.

– Nevertheless, the project delivered relatively minor results in improved resource efficiency, the EBRD-related demonstration effect of which is negligible due to most of the transition of the company having been achieved prior to the project. It failed to deliver tangible transfer of skills to third party farmers, and the expected transfer of highly-specialised skills to company employees proved unnecessary.

Overall performance ratings

EvD - *Successful* OPA – *Successful*



Reason for rating disconnect

EvD differs in rating of transition impact, where little justification of systemic change at company or sector level was found.

OPA quality observation

The OPA provides a good overview of the project and its developments. Ratings, aside from transition impact, were generally well justified and supported by evidence.

Equity funds

Equity fund 1

Private; Equity

Description

This project involved an investment in an equity fund. The project aimed to mobilise private sector funds for €2-5 million investment size in medium-sized companies. Transition impact objectives were to expand the market segment for medium sized enterprise investment and achieve demonstration effect for the participation of central European private pension funds in private equity.

Key findings

– The fund failed to reach its target closing, attracting only minimal investment from one investor.

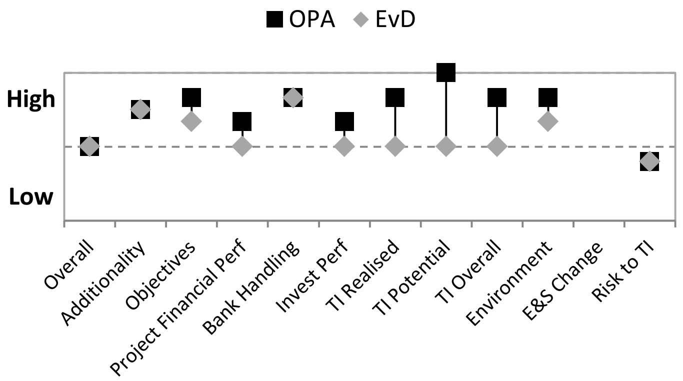
– The reach to medium-sized companies was limited to eight investments compared with the Bank's base case scenario of fifteen.

– Transition impact was evidenced at the level of investee companies (for example setting standards) but was weak at the sector level (for example demonstration effect).

– Investment returns were well below expectations but in the context of challenging market conditions. The EBRD carried out its duties on the advisory board diligently.

Overall performance ratings

EvD- *Partly successful* OPA- *Partly Successful*



Reason for rating disconnect

N/A

OPA quality observation

Frequent statements were made about achievements, but without substantiating evidence – but few measurable targets defined and quantified ex-ante.

Manufacturing & Services

Tile manufacturer

Private; Loan

Description

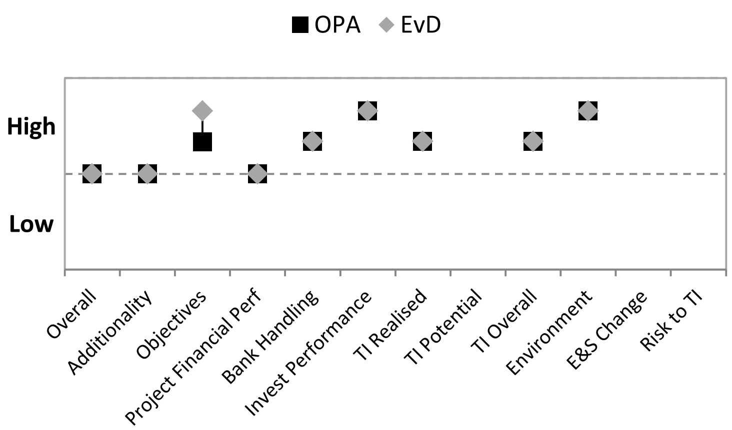
This project involved a loan to a producer of wall and floor ceramic and porcelain tiles, owned by a regional conglomerate. The operational objective of the project was the greenfield construction of a porcelain tile manufacturing facility.

Key findings

- The project's operational objective – construction of tile production plant – has been achieved, albeit with delays compared to plan.
- With respect to transition impact, the project has delivered some results in skills transfer although below expected benchmarks, and presented possible demonstration effects for further foreign direct investment in the region.
- However, the rationale of targeting increased competition is uncertain, and the delivery of that transition impact is delayed.
- The project's marginal financial performance points to some underestimation of risks in design and some shortcomings in due diligence, which were well identified and discussed in the OPA.

Performance ratings overall

EvD – *Partly Successful* OPA – *Partly Successful*



Reason for rating disconnect

No disconnect between the ratings.

OPA quality observation

The OPA gives a reasonable overall account of the project's developments and achievements. EvD specifically appreciates OPA's candid assessment of bank handling of the project.

Energy services

Public; Loan

Description

This project involved a loan to a company for small energy saving sub-projects implemented by small and medium enterprises. The project was to: i) support the company's further commercialisation and eventual privatisation; ii) continue demonstrating the energy service company concept in the difficult country environment and iii) create linkages to local industry.

Key findings

– Close to 20 sub-projects were implemented, although a portion of loan proceeds was not utilised and cancelled.

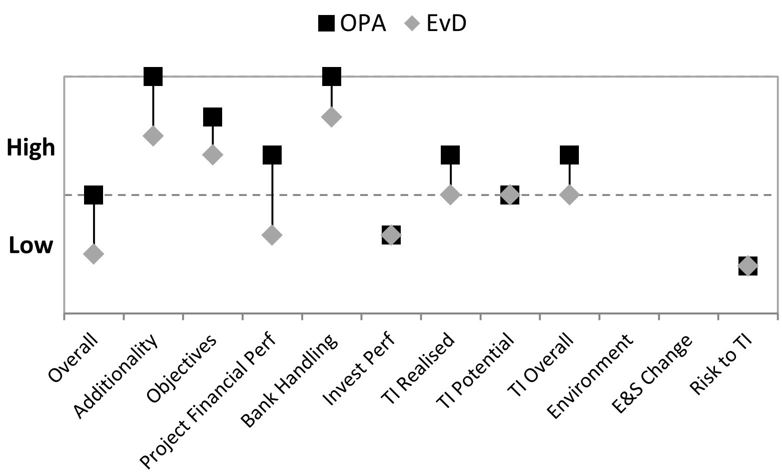
– Positive outcomes in terms of energy efficiency coming from the sub-projects – though no evidence was provided in the OPA.

– The company was never privatised and the market did not develop as expected. The regulatory framework was found to be not optimal to implement the energy service company model – a deficiency at due diligence phase.

– An Independent Procurement Review revealed the company's non-compliance with the Bank's Procurement Policies and Rules as well as shortcomings in the Bank's monitoring (also due to lack of project ownership).

Overall performance ratings

EvD – *Unsuccessful* ▼ OPA – *Partly Successful*



Reason for rating disconnect

The OPA has overrated all sub-criteria. No evidence was provided to justify the high ratings which in turn did not reflect the actual implementation and issues related to the project.

OPA quality observation

The OPA was drafted by the seventh operation leader, completed without consultation with other departments, and not reviewed by EvD. The OPA suffered from deficiencies in many sections and did not capture important issues related to the project.

Automotive components manufacturer

Private; Loan

Description

This project involved a loan to a manufacturer of automotive metal components to finance the expansion of production facilities of target subsidiaries and joint venture operations across the region through acquisition of equipment and working capital support. Transition impact potential was expected from: (i) skill transfers to local employees; and (ii) enhanced backward linkages to local suppliers.

Key findings

- The facility disbursed but project implementation did not go ahead as expected. In parallel with the loan signing, the company received an equity injection from a new shareholder and started issuing corporate bonds on the international market as part of a restructuring of its financial liabilities. The EBRD was eventually asked to join an inter-creditor agreement to preserve pari-passu ranking of its loan but EvD understands from the banking team that at the last moment other lenders would not agree to the carve-outs related to the EBRD special status. Subsequently the loan was prepaid.
- Insights included: (i) Client understanding of EBRD loan terms for facilities structured on the international holding level is critical; (ii) Follow up assessment and action on the effects of prepaid projects should be brought to attention of the Board; (iii) The EBRD's special status can be an obstacle to an EBRD facility as client financing arrangements change; (iv) The loan guidance regarding strong borrowers might better take into account any prepayment risk caused precisely by the borrower's strong credit and its access to other facilities.

Performance ratings overall

EvD – *Unsuccessful* OPA – *Partly Successful*

Reason for rating disconnect

The project is rated by the OPA as *Partly Successful*, based on good ratings for financial performance and bank handling. EvD disagrees with this overall rating, given that this project did not reach implementation and so did not achieve any of its envisaged outcomes, except in terms of repayment and through the portion of the investment plan which was effectively refinanced by EBRD facility proceeds.

Given the lack of implementation and results, EvD rates the project *unsuccessful* overall and considers that it is not appropriate or useful to assign other ex-post ratings. EvD validates only the ex-ante ratings of the project additionality, and considers this *not verified*, in contrast to the OPA which rates this as *partly verified*.

OPA quality observation

The OPA was incomplete and a few rounds of comments from EvD's side were necessary to get a better picture of the project and its background. Notably, a TIMS report was not attached and there had been little discussion surrounding loan structure decisions, prepayment of the project or board discussion at approval. EvD however notes that the team made a fair attempt to address all the major comments raised by EvD.

Property & Tourism

Business facilities

Private; Loan

Description

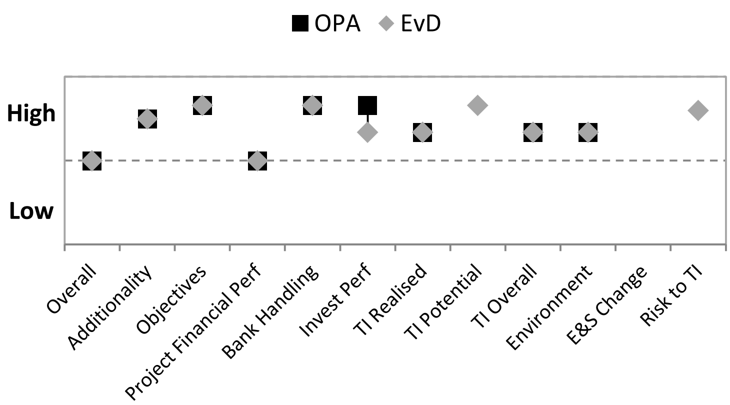
The project involved a loan to finance construction of an industrial park, as emergency finance for a crisis-hit project. It aimed to demonstrate a new product (modern warehouse facilities), increase competition, attract high-quality tenants to the region, improve construction standards, especially environmental and energy efficiency standards, and create backward linkages to local sub-contractors and suppliers.

Key findings

- The park was constructed with some delay. Expected syndication was not achieved, and with an improvement in the market the loan was refinanced and prepaid. By the time of prepayment, it had not yet demonstrated its long-term commercial attractiveness or confirmed achievement of all energy efficiency targets.
- Some of the transition benchmarks were achieved but attribution to the project is unclear: local rents declined because of the crisis and competing facilities may already have been planned. The Bank should take care not to claim credit for events occurring independently of its project.
- The OPA could not report on achievement of energy efficiency benchmarks since data provided by the client was not analysed with this aim. The Bank should establish a monitoring plan covering all explicit commitments made in the Board report, to allow their achievement to be evaluated later.

Overall performance ratings

EvD-*Partly Successful* OPA-*Partly Successful*



Reason for rating disconnect

The only change was to Bank investment performance, downgraded to *satisfactory* in line with the calculations.

OPA quality observation

The OPA is satisfactory with some good sections. Description of rationale and efficiency lacked an adequate retrospective assessment, and the transition impact did not fully substantiate all its claims.

Property fund 1

Private; Equity

Description

This project involved an equity investment for property development projects. It aimed to achieve long term capital growth by building, within 3 years, a balanced portfolio of development and acquisitions of institutional quality office buildings and shopping malls in major cities. The fund would acquire raw land and seek external financing from commercial banks to build projects on the land sites.

Key findings

– EvD concurs with the OPA rating of *unsuccessful* caused by the effect of the pre-2009 boom and subsequent crash exacerbated by structural and managerial shortcomings.

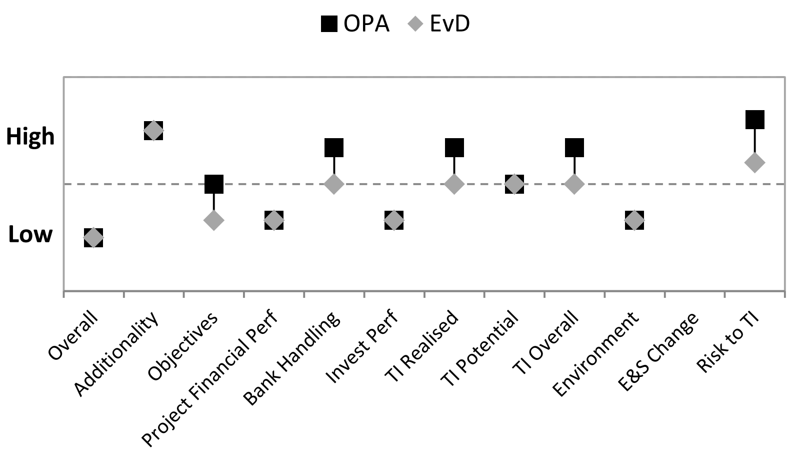
– The structural meaning of development projects and related risks were not set out. The Bank's funds would be used mainly to build a land bank whose development depended on resources that the fund did not possess. Should commercial bank loans not be forthcoming, the fund would have to liquidate a portfolio of land plots to return money to investors, most likely at a large loss.

– The project deviated from its investment strategy by investing entirely instead of two-thirds in development projects and shifting from commercial to more residential projects; and dropped its original project pipeline for a new one. One third of projects were completed, leaving some undeveloped land plots in the portfolio.

– The majority of the EBRD's investment was lost while paying management fees over a number of years (following standard private equity fee rates).

Overall performance ratings

EvD – *Unsuccessful* OPA –*Unsuccessful*



Reason for rating disconnect

The very poor achievement of objectives, merits a rating of *unsatisfactory*.

Bank handling was lowered due to weak risk assessment in the Board document, failure to clearly state that the fund would build a land bank that might remain undeveloped, and unmitigated reliance on the pre-2009 bubble (which then looked like growth).

Although the OPA made a reasonable case for its transition impact ratings, EvD downgrades overall TI rating to *marginal* overall based on the evidence of previous sections. There is less risk that it will have either better or worse impact in future.

OPA quality observation

The OPA did a good job of presenting evidence and judgements about this difficult project and assigned the correct overall rating. The OPAV stresses some factors somewhat more than the OPA did and downgrades a number of the criteria ratings.

Property fund 2

Private; Equity

Description

The Bank subscribed to a property fund. The project sought to attract domestic funds from individual and institutional investors for equity investments in real estate in central and eastern Europe.

The fund was launched at what turned out to be the peak of the market. The impact of the market fluctuations on the fund was to reduce the net IRR for investors. The fund's shares also suffered from a discount to NAV which is common for closed-end listed equity funds. Finally, the listed shares have not delivered the liquidity that investors reportedly expected.

Key findings

The OPA offered lessons about the limitations of domestic closed-end real estate funds and the risks of investing in smaller projects in secondary cities.

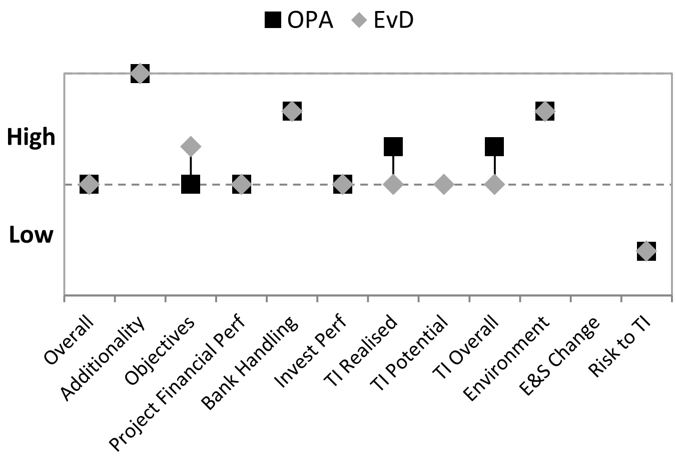
– The fund was not replicated due in part to a drop in demand in 2009. The resulting portfolio of mid-size projects did not resist the 2009 market collapse, resulting in poor returns for investors.

– The fund did provide liquidity to sellers of the purchased properties.

– It did not invest much in secondary cities, which might be fortunate since it is understood that the capital city's property markets outperformed other cities.

Overall performance ratings

EvD- *Partly* Successful OPA- *Partly Successful*



Reason for rating disconnect

Realised transition impact downgraded from *satisfactory* to *marginal* due to the fund's poor performance, linked in part to the focus on second-tier properties but driven mainly by the continuing poor market valuations which did not contribute to demonstration effects.

OPA quality observation

The quality of the OPA is good. It is clear and persuasive, providing a sober and balanced assessment of the project.

Municipal and environmental infrastructure

Municipal housing

Public; Loans

Description

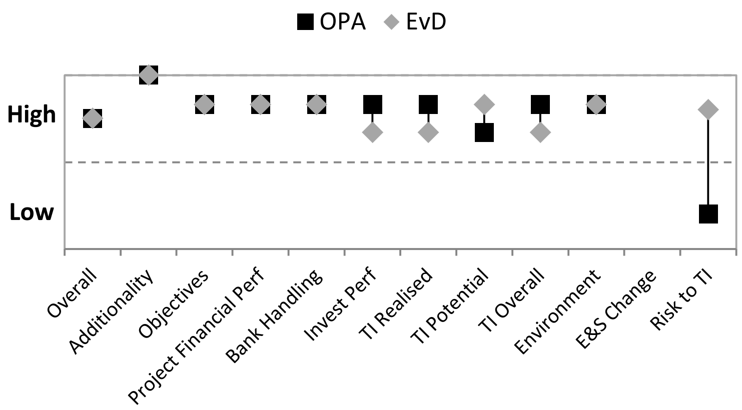
This project involved a loan to a city for housing refurbishment. The city struggled in planning and replacing its large number of dilapidated housing stock unsuitable for dwelling. The project aimed to demolish the existing buildings and build modern energy efficient buildings. It required preparing and adopting a municipal housing policy and establishing a new housing agency. Phase 1 was successfully implemented after a project site change. Most of the envisaged framework was fulfilled inducing a commercial financing to Phase 2, which resulted in the cancellation of the EBRD loan.

Key findings

- It is important to ensure implementation arrangements during due diligence:
    i) an implementing agency should be established before loan signing; and
    ii) the involvement of a third party after signing, or the involvement of an existing party in a new role, even with the potential to add value to the project, should be carefully assessed.
- When engaging in a new subsector the Bank should consider how mature the subsector is.
- Importance of monitoring social safeguards in privatisation; when the project explicitly involves socially disadvantaged people as stakeholders, its monitoring design should be carefully formulated and agreed on with the counterpart in order to ensure the social safeguards and the project benefits for such people during and after the project.

Overall performance ratings

EvD- *Successful* OPA- *Successful*



Reason for rating disconnect

Disconnections occurred in (i) investment performance; (ii) transition impact; and (iii) environmental change

OPA quality observation

The quality of the OPA was good, providing a good summary of the long, difficult and eventful project and a clear justification for its ratings.

Municipal services

Public; Loan

Description

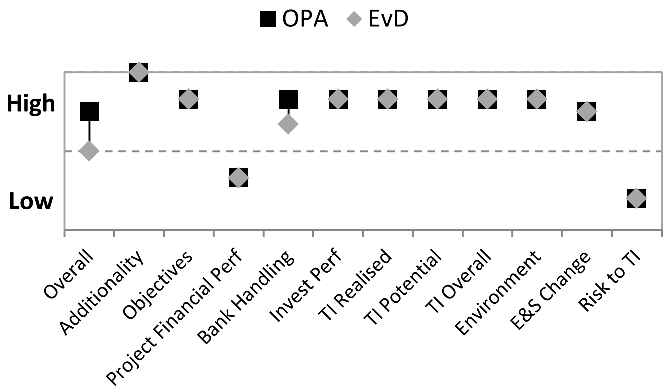
This project involved a loan to the municipally owned company to improve water, wastewater and district heating services. Transition impact was expected from tariff reform, improvements in the contractual relationship through the introduction of a service contract and operational improvements due to the physical investments (energy and cost savings).

Key findings

- The EBRD stopped disbursing due to underperformance of the company and expense/revenue mismatches.
- The heart of the problem was unacceptably high technical losses requiring network investment and removal of unauthorised connections. These were not subject of the project and not adequately identified at project design;
- Individual heating substations in the municipal housing stock and public buildings were installed;
- A corporate development programme was adopted and implemented; IFRS was adopted; the public service contract was signed but its successful implementation is at risk;
- Full cost recovery tariff policy was adopted, but its implementation is being hampered by the tariff growths limits imposed by the government, and higher actual leakages than the approved norms.

Overall performance ratings

EvD – *Partly* Successful ▼ OPA – *Successful*



Reason for rating disconnect

EvD has downgraded the overall performance and some sub-criteria due to the financial underperformance of the company and the deficiency in the design of the project.

Quality observation

Good quality OPA. All information available to the operation team was provided to EvD to facilitate the validation exercise.

Water Projects

Public; Loan

The OPA covered three water and wastewater projects, which involved sovereign loans to local municipalities. Project preparation and implementation were largely supported by the various donors and were technically and institutionally challenging. Despite delays, the projects achieved constant water supplies in the main locations.

Key findings

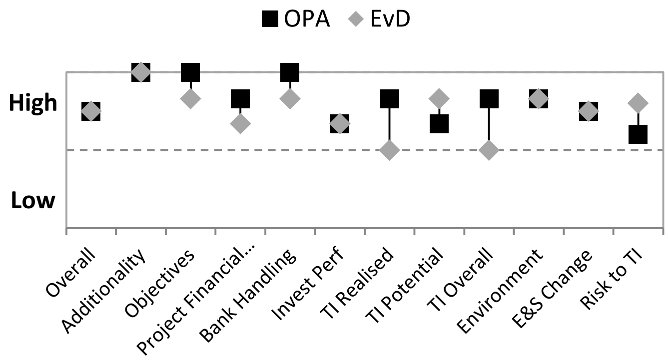
– The counterpart had little experience with policy dialogue on sector and institutional reforms and showed relatively little support; as a result TC operations for policy dialogue and sector reforms were not efficiently implemented. Project outcomes remained mainly physical.

– Limited leverage on policy dialogue due to the counterpart government's 'donor shopping'; the projects demonstrated the difficulty of pursuing the EBRD's transition focus in a crowd of grant donors with diverse agendas. When donors are plentiful and act independently in the international community, it gives the government an opportunity for 'donor shopping'. The EBRD should be realistic in assessing its leverage on the counterpart and the competitiveness of financing conditions, and should encourage the IFI peers to cooperate with each other rather than compete.

Overall performance ratings

EvD–*Successful* OPA–*Successful*

1



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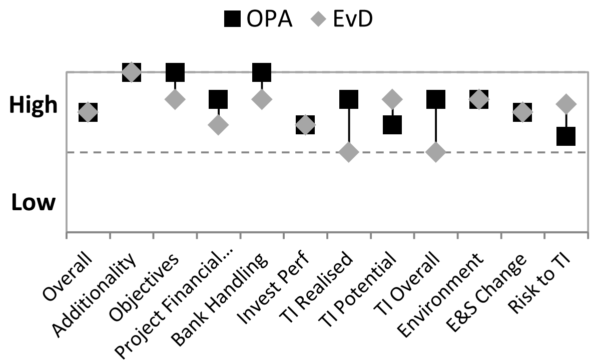

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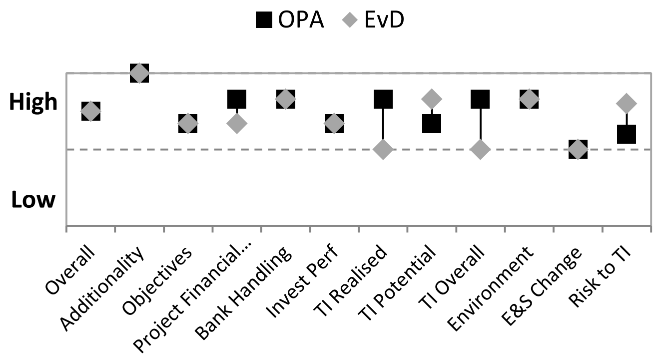


Reason for rating disconnect

Disconnections occurred in (i) achievement of objectives (*excellent* vs. *good* for 1 & 2; due to delays, some cost overrun and efficiency issues), (ii) project financial (*good* vs. *satisfactory*; due to very weak financial viability of the water companies; and (iii) bank handling (*excellent* vs. *good* for 1 & 2; for somewhat weak policy dialogue) and (iv) TI (*good* vs. *marginal* for all; despite *good* TI potential, poor fulfilment of the benchmarks and a weak substantiation of the outcomes).

OPA quality observation

The OPA was of excellent quality. The project descriptions and assessment provided a solid foundation and fed into some insightful lessons in findings and lessons. A deeper analysis of the financials and the transition impact would have raised the OPA quality to exceptional.

Water infrastructure

Public; Loan

Description

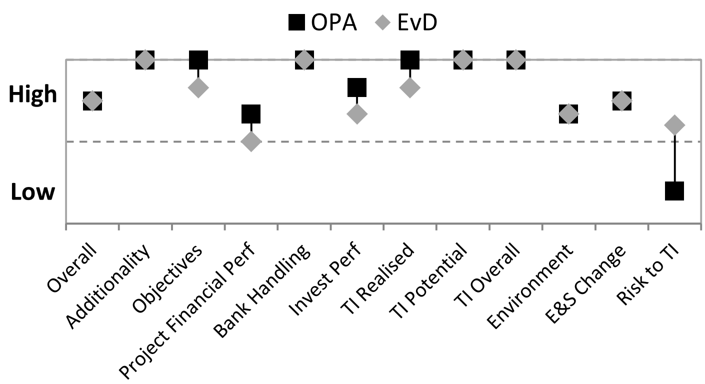
The OPAV validated a successful water and wastewater infrastructure project involving the EBRD's loan to a local public municipal services company. The project aimed to upgrade water infrastructure in tertiary cities and strengthen the beneficiary municipal water companies' institutional capacity. Three cities, which had been supported by another IFI, were selected. A large grant package was committed at appraisal. However, the capital grant later increased for various reasons. Despite delays and cost overruns, the project was completed in three locations. The government was engaged in the EU-led national policy dialogue for integrated water Resource Management and the EBRD joined the dialogue to share the sector policy formulation.

Key findings

- A municipal project for tertiary cities in the ETC had a high transition potential, but required a large amount of resources including additional capital grant in order to achieve its operational as well as transition impact objectives. However, the positive impact was significant and justified additional financing.
- The municipal project design should include how to strengthen the institutional capacity of the sector at large. Training and skill transfer component should aim not only the project implementation unit and the government officials, but also the water companies as implementing agencies.
- It is important to stay active in the international community to assist the government in formulating a sector policy. It affected the project's transition impact objective during the project implementation.

Overall performance ratings

EvD – *Successful* OPA –*Successful*



Reason for rating disconnect

The disconnection is not significant. EvD took into the delay and cost overruns into account for the achievement of objectives (excellent vs. good) and the local water companies' weak financial viability for the financial performance (satisfactory vs. marginal).

OPA quality observation

The quality of the OPA was very good, but a better substantiation of the benefits, with measurable evidence, could have proved the worth of this pilot project more fully.

Transport

Road project

Public; Loan

Description

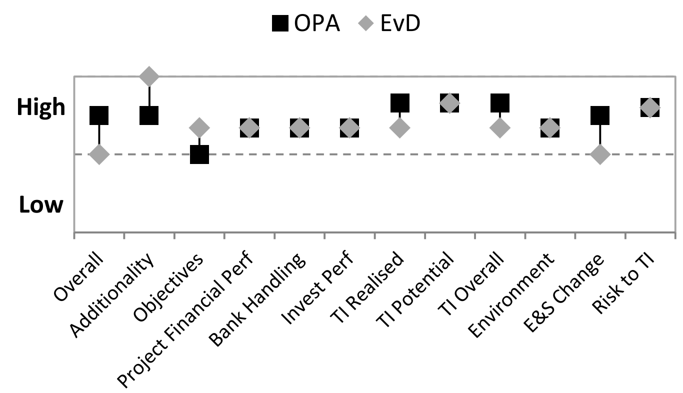
A sovereign loan was made to co-finance construction of a new bypass, and design and construction of a motorway. It would improve road links, enhance the 'single economic space' by obliging different administrations to work together, develop institutions and ensure availability of maintenance funds. TC funding was provided to help the ministry prepare a transport policy and strategy.

Key findings

- The EBRD-financed part of the project completed physical implementation with substantial delay due to problems with land acquisition and procurement.
- The project achieved most of its transition objectives with the exception of the transport strategy, which is now unlikely to be adopted. The aim of encouraging cooperation and strengthening the Ministry was not achieved and contributed to the delays and the failure to adopt the transport strategy.
- The Bank waived several covenants to allow it to declare loan effectiveness; and subsequent reporting by the clients was irregular. Waiving covenants so early sends a negative signal on the importance attached to covenant compliance.
- The other IFI’s component was delayed by issues around land acquisition and involuntary resettlement, as have similar projects in the region. When joint-financing projects, EBRD should ensure that other IFIs' standards are commensurate with the EBRD's.
- Some operational and transition objectives, dependent on actions by another country and other financiers, have not been fully achieved. When setting objectives, the Bank should identify the risks and assumptions to their achievement, including limitations to EBRD leverage over third parties, and identify them in the Board document.

Overall performance ratings

EvD- *Partly Successful*   OPA- *Successful*



Reason for rating disconnect

EvD upgraded additionality to *fully verified* in light of a complete absence of commercial financing. It downgraded transition impact to *satisfactory* because the project has not yet achieved expected regulatory and institutional reform and regional integration.

OPA quality observation

Quality is good despite some information gaps arising from the age of the project and a change of OLs.

Rail operator

Public; Loan

Description

The project involved a sovereign guarantee loan a majority state-owned national passenger rail operator. Proceeds were used to finance the renewal of passenger rolling stock and partly finance the final phase of the labour restructuring programme.

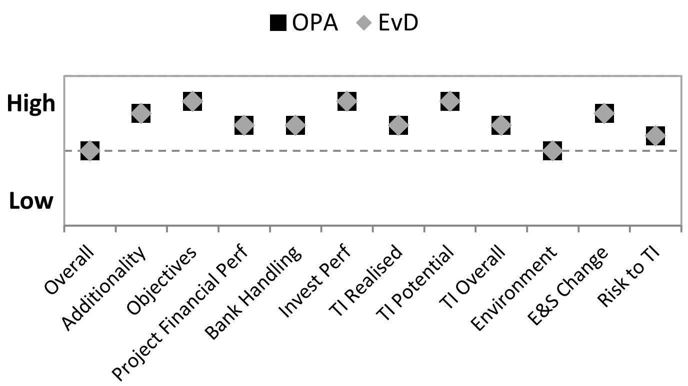
Key findings

– Where sector reform is targeted, benchmarks and timeline should be realistically set and combined with targeted policy dialogue (where possible in conjunction with follow on projects with the same government and/or entities), in particular where actual commitment to reform remains untested and/or changing circumstances could interfere.

– The Bank should attempt to evaluate more extensively the degree to which potential sub-projects (in this case, e-ticketing and energy efficiency activities) would be supported by the borrower and its willingness to finance implementation before mobilising TC funds to carry out assignments related to such sub-projects. In particular, with sovereign-guaranteed loans the capacity and desire of the government to finance the activities should be considered. The government's willingness to share the cost of the TC would be a measure of its seriousness.

Overall performance ratings

EvD–*Partly Successful*   OPA– *Partly Successful*



Reason for rating disconnect

No rating disconnect

OPA quality observation

The OPA submitted by the operation team was completed including latest financial and monitoring reports. The team provided useful comments in hindsight of elements that could have been reconsidered.

EvD made comments asking for clarity in sections such as objectives and transition impact. The team showed positive commitment to the OPA exercise, responding to the OPA comments on time and involving other teams. Ratings were adequately justified. The effort to re-calculate EIRR is particularly commended.

Shipping company

Private; Loan

Description

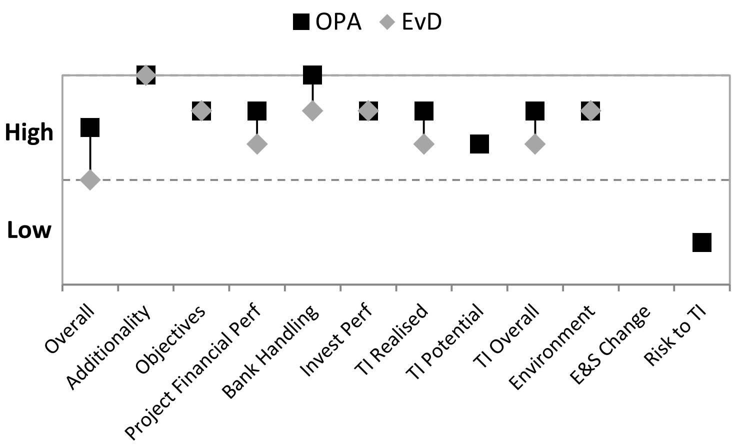
This was a loan to finance the acquisition and operationalization of ten new short-sea vessels, in order to maintain the client's competitiveness and sustain the development of its long term business. Transition impact of the project was expected to derive from the restructuring of the company, including improvements in the competitiveness of the client and in its corporate governance. The project was also expected to result in the setting of replicable energy efficiency/environmental standards, which had been supported by a pre-signing energy audit TC using energy efficiency and climate change framework funding.

Key findings

- The loan was prepaid since the client decided to enter a sell and lease back arrangement with a major leasing company in order to refinance shareholder equity.
- The project achieved its physical objectives but transition impact results were more mixed, mainly due to output level information being available and some shortfall in the extent to which the client committed to the energy efficiency standards such as greenhouse gas disclosure.
- It may be appropriate to set fewer and less tight financial ratios for sponsors in sectors which experience cyclicality of markets.
- The impact of a sponsor's planned investments outside the scope of the EBRD project needs to be carefully assessed as part of the project due diligence, as far as is possible to predict.

Overall performance ratings

EvD- *Partly successful* ▼ OPA- *Successful*



Reason for rating disconnect

Mainly perspective on transition impact progress, including some missed opportunities due to bank handling, and financial performance.

OPA quality observation

The OPA was detailed in many areas and provided a fair assessment of the project within the data constraints due to prepayment and project design. However, some data gaps made it difficult to provide an adequate validation. The level of detail on contribution of TC to the project was also quite basic.

Power & energy

Hydro power plant

Public; Loan

Description

This project financed an upgrade of a significant hydro power plant. The project was able to complete three of the four planned modernisations with the last forthcoming. There were three operational objectives:

i) increased available of the cascade capacity;
ii) increased efficiency and reliability of a cascade: decreased cascade outages; and
iii) refurbishment of another hydro power plant not covered by the project.

Key findings

– The first two objectives were largely achieved and the third objective was achieved.

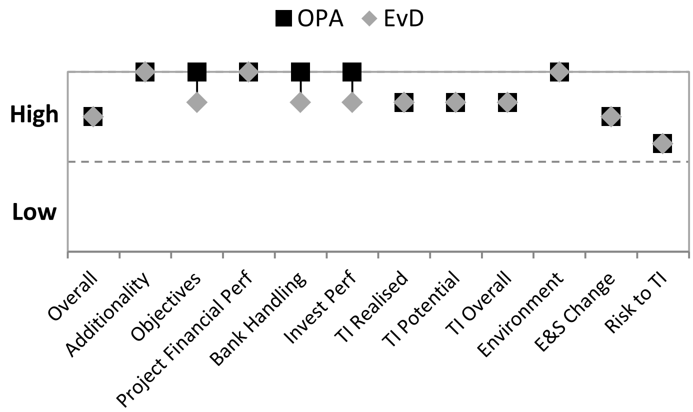
– The institutional capacity of the client's project implementation unit affected results.

– Regarding transition impact, there were changes to laws that were accepted with delayed implementation and the facilitation of MOSPRIME power sector lending never materialised. However, there was more success in achieving the corporate-level transition impacts with the implementation of the various action plans and IFRS audits. The company became the Bank's first client to take part in the Bank's Equal Opportunities initiative promoting gender balance.

– Bank handling strong on managing client, loan syndication, compliance with initiatives and reporting. Objective to deliver new legislation within one year may have been overly ambitious.

Overall performance ratings

EvD- *Successful* OPA- *Successful*



Reason for rating disconnect

N/A

OPA quality observation

OPA quality is satisfactory. More detail to explain the OPA ratings especially in relation to transition impact was sought. Good style and welcome brevity of language.

Electrical power distribution

Public; Loan

Description

This project involved a sovereign loan to wholly owned electrical power distribution subsidiary of a national railway company to finance the procurement and installation of electrical power supply equipment. The project was to support the unbundling of the company and transform it into an effective rail sector traction energy distributor using technical cooperation projects reinforced with loan conditionality to achieve that goal. Among other things, the company was to demonstrate compliance with profitability targets set as key covenants, consistent with the commercialisation goals that the EBRD sought.

Key findings

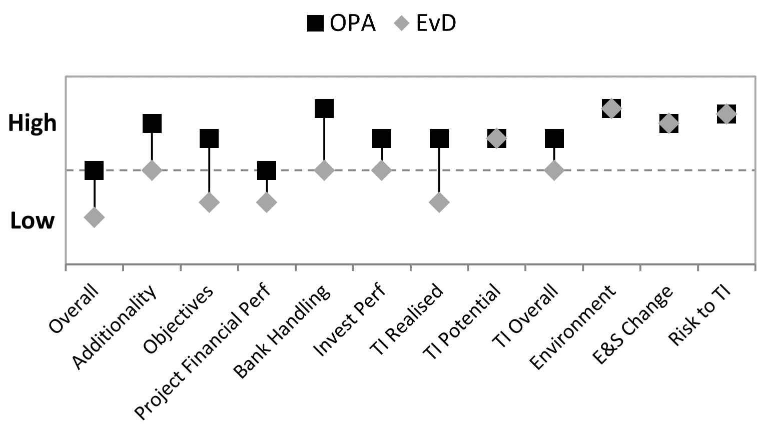
The project was based on the assumption that the parent had been restructured and would transfer its power distribution business to its subsidiary, but at signing the parent had not transferred the business, and the entity was not yet in the business of buying power and distributing traction electricity from trackside substations to train operating firms. Progress towards becoming a power distribution firm was unsatisfactory the time of writing, and the subsidiary is insolvent. Key findings included:

– Despite the project team monitoring the deteriorating financials of the subsidary and noting a large number of covenant breaches, numerous disbursements were made over mid term period.

– Interventions with government counterparts were ineffectual relative to the multiple problems around project performance.

Overall performance ratings

EvD–*Unsuccessful* ▼ OPA– *Partly Successful*



Reason for rating disconnect

EvD downgraded the project rating based on information provided in the OPA, which in EvD's assessment meant the project was entirely *unsuccessful*.

OPA quality observation

The OPA is mostly thorough and detailed and evidences a lot of professional care and an effort to explain what went wrong with the project, although it assigned some ratings that appeared to be overly generous.

Natural resources

Mining company

Private; Equity

Description

This project involved an equity participation in a mining company for exploration and development of precious and base metals. The company's core asset was a licence to a cobalt-copper reserve. The company was to undertake two phases of equity raising. The first phase would lead to the preparation of a feasibility study and the second would allow the company to complete acquisition of the licences for nearby satellite deposits. The transition impact case for the project was based on supporting a private and independent mining company achieve successful stock exchange listing within two years of Bank approval.

Key findings

– The project was transferred to Corporate Recovery, and the company possessed neither a feasibility study nor the licences to satellite deposits.

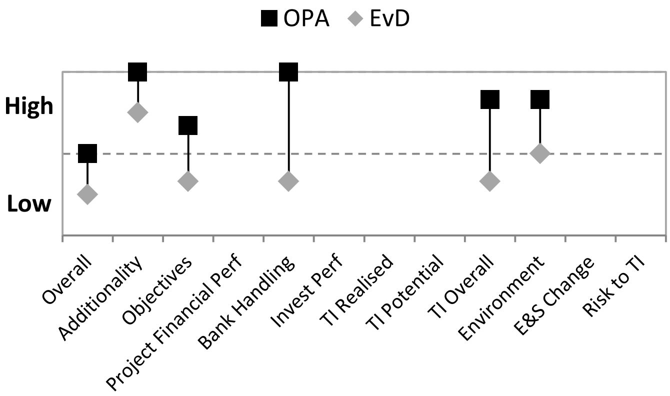
– The EBRD became aware that the project Sponsor was the subject of integrity issues.

– The project was found to have failed to make acceptable progress toward any of its major transition impact objectives.

– The project's experience to date reflects significant Bank handling shortcomings regarding due diligence, project risk identification and mitigation.

Overall performance ratings

EvD - *Unsuccessful* ▼ OPA – *Partly Successful*



Reason for rating disconnect

The self-evaluation for the project was an older Expanded Monitoring Report (XMR). Though this is a limitation that needs to be borne in mind, EvD still found the XMR excessively positive in its assessment in almost all of the categories.

OPA quality observation

A substantial amount of time has elapsed since the self-assessment was completed, and that in the old-style XMR format. However, for a number of reasons the team's self-assessed ratings could not in the main be justified by the evidence available.

Port construction

Private; Equity and Loan

Description

This project involved a loan and equity investment in a private company to co-finance the construction and operation of a marine support and supply base serving the local oil industry. In addition, a second loan was made to a boat yard for the construction of a vessel maintenance facility at the marine and supply base. This facility was to provide support to the off-shore oil and gas development. The success of both projects depended heavily on the oil and gas development activities in the neighbouring oil field.

Key findings

– Proposals for projects relaying on other projects, which may or may not materialise or developments entirely outside of stakeholders' control, should be very critically appraised and their design should mitigate to the extent possible the third party risk.

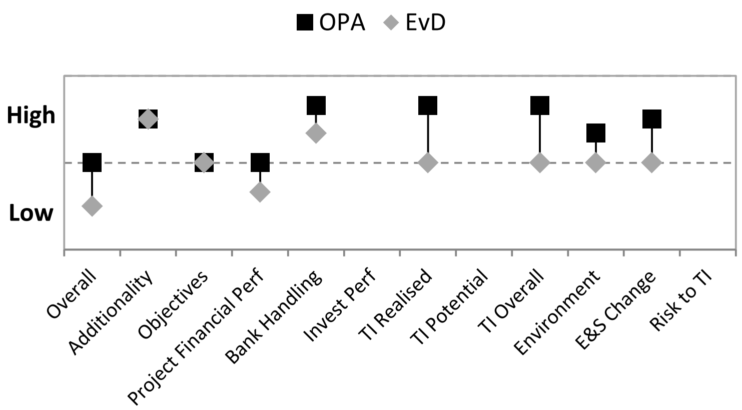
– A guarantee is as good as the guarantor's financial standing. The Bank should negotiate tight financial covenants applicable to the guarantor's company to ensure viability of the guarantee.

– Operations, where the business model relies on the commencement and the success of other projects, should be financed only after such other projects start and become operationally successful.

– Withdrawal of a B-lender from the project financing may signal an increased risk associated with such a project.

Overall performance ratings

EvD – *Unsuccessful* ▼ OPA – *Partly Successful*



Reason for rating disconnect

Less optimistic view of both projects' past and future prospects.

OPA quality observation

No formal OPA prepared, just and older final monitoring report and a Corporate Recovery update memo.

Drilling company

Private, Loan

Description

This project involved a loan to a drilling company for the acquisition of one hydraulic fracturing unit for high-pressure drilling works and two drilling rigs, to be used in a country of operations.

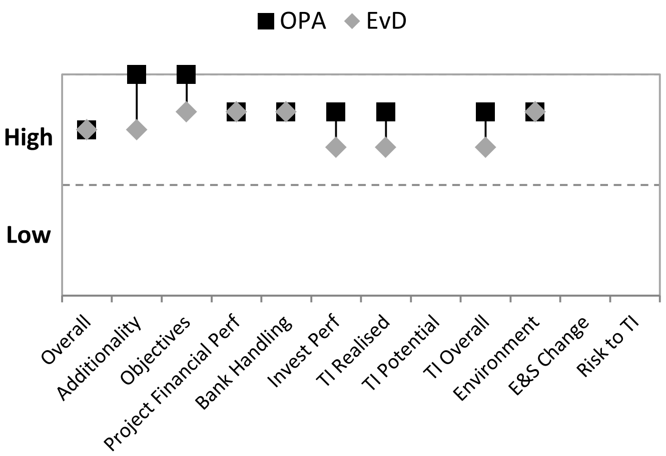
Transition impact was expected from (i) the support to a local independent company (private ownership), enhancing growth of a private, independent supplier of oil field services (OFS) as an alternative to large international providers, (ii) demonstration effect of new products and services, support to the technological upgrade and transfer of skills to a local OFS operator and (iii) setting standards of corporate governance by implementing best practices for hydraulic fracturing operations based on international guidelines.

Key findings

- Availability of local currency funding: Local currency was devaluated and the market sentiment for further devaluation was imminent. Due to lack of available local currency funding the Group prepaid the loan in full to avoid further FX losses. The Bank should advise clients early on FX hedging possibilities and if necessary provide TC funds to assist in management of their FX risk.
- Linking measurable transition impact objectives to the financial model: The Group did not achieve the objective of strengthening the operations in the region with an increase by 50 per cent in revenues. Teams should always check measurable transition impact objectives vs. financial model projections for its timeline and feasibility. They should use a conservative approach for project projections including for transition impact objectives.

Overall performance rating

EvD- *Successful* OPA- *Successful*



Reason for rating disconnect

The evaluation agrees with the overall *successful* project rating, however achievement of operational objectives is downgraded to *good* (achievements merely in line with goals), Bank investment performance to *satisfactory* (cumulative project contribution cut down due to prepayment) and transition impact to *satisfactory* (in line with latest TIMS).

OPA quality observation

Quality of the OPA overall satisfactory. More details about the company's prepayment of the Bank's loan desirable as well as a reflection of the implied additionality consequences of prepayment and some further analysis of the Company's operational performance.

Financial institutions

Insurance company

Private; Equity

Description

This project involved a minority equity investment in an insurance company. The proceeds were used by the company to buy out a state-owned entity. The operational objectives of the project were the consolidation of the local insurance sector through the merger of public and private companies, and the development of the insurance sector in the region's markets.

Key findings

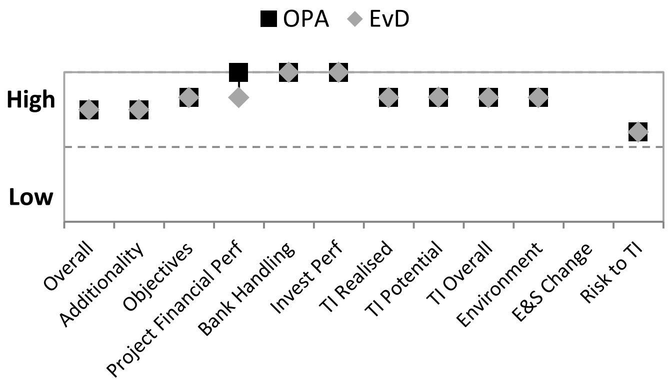
– The project has achieved its operational objectives to the extent expected within its relatively short duration so far. It has also delivered good financial performance and excellent investment performance

– With respect to transition impacts, the project has achieved its objective of creating a strong player in the local insurance market to compete with the state-owned market leader, and further achievements can still be expected in its contribution to the development of other markets in the region.

– The objective of increased private ownership is on track, with the state owned enterprise now fully owned by the company and future exit of state-owned entity from its minority stake is expected. The objective of introduction of new distribution channels is delayed.

Overall performance ratings

EvD–*Successful* OPA– *Successful*



Reason for rating disconnect

No substantial disconnect between EvD and OPA ratings.

OPA quality observation

The OPA is of very good quality, providing a succinct and informative overview of the project's developments and prospects. Ratings of individual criteria are well justified with evidence and analysis.

Insurance 2

Public; Loan

Description

– The project involved a line of credit to help secure a deposit agency which provides deposit insurance to local banks.

– While it expands income through membership fees from participating banks and raises the insurance coverage limit. This was a first-time project which helped provided stability to the banking sector during a financial crisis. Membership fees and agency income increased. The deposit insurance coverage ratio improved.

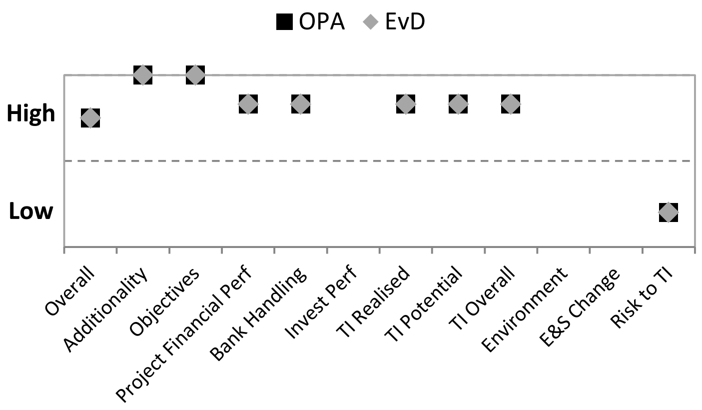
Key findings

– There was *good* transition impact evidenced by all transition impact benchmarks being achieved or on track, and a steady deposit insurance coverage ratio above the target despite the failure of a small bank in 2015.

– Covenants in the agreement regarding raising the deposit insurance coverage amount would have created a firm commitment and perhaps accelerated the process.

Overall performance ratings

EvD- *Successful* OPA- *Successful*



Reason for rating disconnect

N/A

OPA quality observation

Excellent/Good quality OPA

SME bank

Private; Loan

Description

As the second operation with the client, a mid-sized local bank, the EBRD provided an SME credit line as a crisis response. The bank's SME lending portfolio had shrunk but grew well after the project. The quality of the portfolio was in line with transition benchmarks targeting outside the capital city in smaller sub-loans on longer loan maturities.

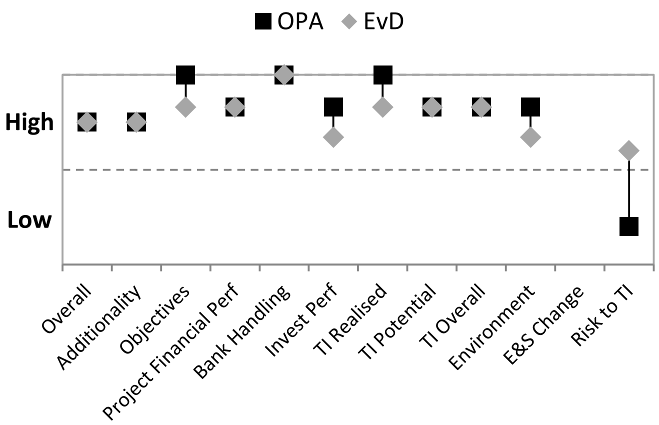
Key findings

– Importance of client selection for SME lending: the bank outperformed and exceeded the EBRD's expectation in terms of the SME portfolio growth. From its origin, the bank had been an SME oriented bank. For the SME credit line operations, developing a good cooperation and understanding the client bank's business focus are the key to efficiently and effectively channelling the credit line to the target sub-borrowers, thereby realising the EBRD's transition impact objectives.

– Difficulty in setting appropriate performance indicators during and post crisis time: an open credit exposure ratio was considered a more effective measure of risk than conventional indicators, thus covenanted in the loan agreement. However, it is directly affected by the bank's provisioning policy, which is also susceptible to the regulatory authorities' guidance and supervision. As a result, it tends to fluctuate when the economy and market destabilise and the covenant had never been met even after being amended. EvD suggested running a financial model thoroughly while the operation team considers the covenant breaches to be rather attributable to microeconomic conditions.

Overall performance ratings

EvD–*Successful* OPA– *Successful*



Reason for rating disconnect

EvD's rating deviated in (i) the achievement of the operational objectives (*excellent* vs *good*; the OPA attributed the SME portfolio growth to the project while EvD considered it owed partly to other support to ABB); (ii) the EBRD's investment return (*good* vs. *satisfactory*; the project did not yield enough profit to be rated *good*; and (iii) environmental performance (*good* vs. *satisfactory*; ABB conduct no environmental due diligence in loan appraisal).

OPA quality observation

The quality of the OPA was good. A set of well-defined time-framed quantitative benchmarks coupled with a set of baseline data at appraisal helped the OPA refine its TI section and make a strong case for transition impact.

MSME bank

Private; Loan

Description

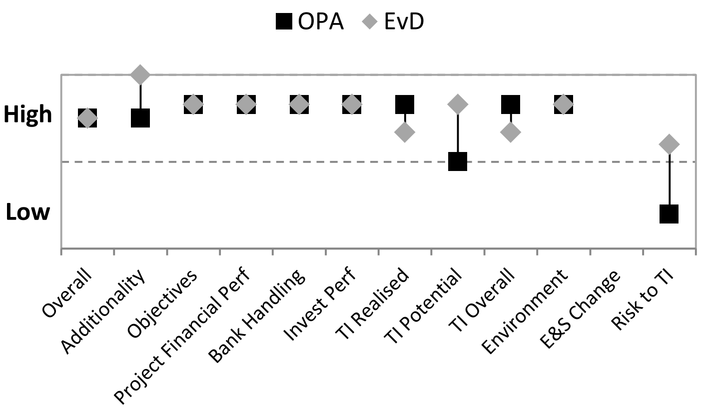
A senior loan facility was provided to a bank to stimulate the development and further expansion of MSE lending, particularly outside the capital, and also to provide longer term financing, contributing to a stronger balance sheet and business model. Transition impact of the project was expected to derive from market expansion by improving the access to finance for local MSMEs, particularly outside the city, and further expansion of the agricultural lending products to the regional network, as well as setting standards for business conduct to better help sub- borrowers manage FX risk. These goals built on previous engagement including investment and TC under the multibank framework, which helped to promote regional lending to MSMEs and develop the bank's agricultural product offering whilst maintaining high quality portfolio.

Key findings

- Operational objectives were achieved and the project met its market expansion targets, and made some progress towards setting standards of business conduct goals.
- The operational insight is that inclusion of a gradually increasing loan to deposit ratio in the financial covenants can motivate proportional growth in the deposit base and encourage the balance sheet restructuring in favour of deposit funded assets.
- More generally, EvD observed that given the Bank's engagement with the bank through several equity and debt operations, the OPA's project orientation, and moreover the division between equity and debt teams, does not easily lend itself to presenting a full engagement history and holistically reflect EBRD's contributions through this partnership on the sector.

Overall performance ratings

EvD–*Successful* OPA–*Successful*



Reason for rating disconnect

N/A

OPA quality observation

The OPA was a well written and a comprehensive assessment of the project, which included generally substantiated ratings, and highlighted issues that would be useful to future operations. The portfolio reporting from the client was unusually detailed and offered additional evidence on the operation's success; something which EvD would hope is taken on by other financial institution partners. The validation process enjoyed swift, responsive and candid communication between EvD and banking teams to pull out further data or points to reference.

Finance for SMEs owned and managed by women

Private; Loan

Description

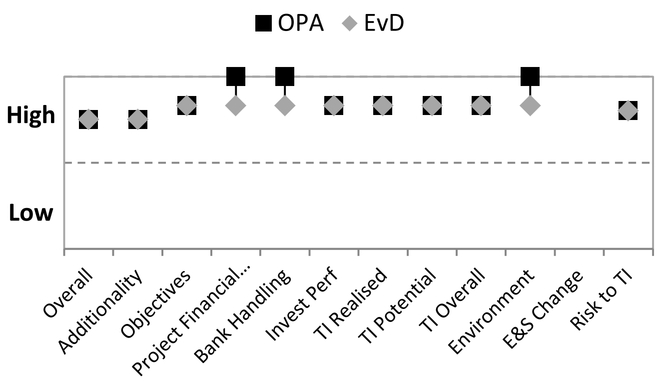
This project was the first pilot project/loan that the EBRD extended specifically for on-lending to women-owned and managed SMEs: a loan to expand existing lending to that specific market segment with a focus outside the three major cities in the country. Also, EBRD aimed at supporting and enhancing the bank's current activities to educate women and create a platform of opportunities, possibly expanding to other partner financial institutions, while introducing a tracking mechanism to capture the impact of the training programmes.

Key findings

- The proceeds of the EBRD loan have been fully used for women-owned and managed SMEs with the majority outside the three main cities; tenor of the sub-loans increased to 28 months.
- The bank's overall exposure for the market segment of women-owned and managed SMEs increased– though there is no evidence this is directly attributable to the EBRD financing.
- Reporting requirements related to the sub-loans did not ensure robust assessment of the results and the impact on the end-borrowers. Also a number of activities aimed at contributing to the project's objectives have been implemented but aggregation of results is missing.
- Training scheme/certification programme for women in business was carried out with close to a thousand participants, out of which over half certified through session in seven cities. However, difficulties and delays have been encountered in the implementation of the tracking mechanism.

Overall performance ratings

EvD – *Successful* OPA –*Successful*



Reason for rating disconnect

EvD has downgraded some of the ratings of the sub-criteria as the OPA does not provide enough evidence in support of its higher ratings.

OPA quality observation

The operation team was committed to complete the OPA and responded efficiently to EvD's comments in the review phase. However, the OPA lacked some information which was eventually provided during the validation exercise.

Asset management

Equity & Loan, Private

Description

This project involved an equity investment to an asset management company to meet its funding requirements for increased growth forecasts. The company was one of a small number in the country licenced to acquire distressed and non-performing loans from banks and other financial institutions. It had plans to expand both corporate and its less developed retail business.

Key findings

– The company continues to be one of the leading asset management companies in the country and has been instrumental in establishing self-regulation for the industry and a forum for lobbying through the asset management company industry association. The project was valuable in providing growth capital for the company, which it has fully deployed in its acquisition of non-performing loan portfolios.

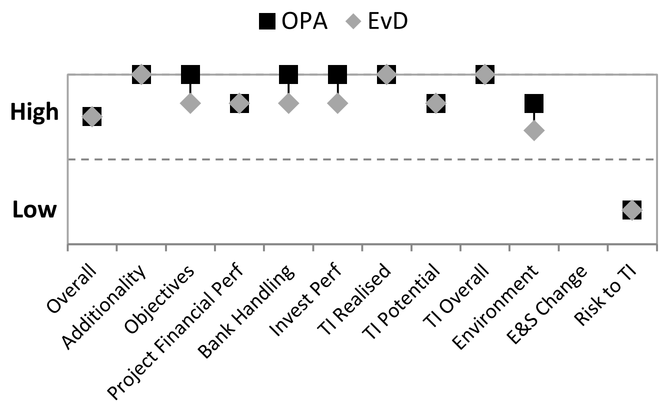
– It has built up strong relationships with the country's private banks and helped bring many of them to the distressed asset market for the first time. It also maintains very high standards of conduct in its own collection processes.

– There is a possible need for more conservative estimates both of growth and of the company's ability to manage operating costs. The company has sacrificed some growth for greater assurance of profitable collection business, attesting to the maturity of the company's strategy

– Both the Board document and the OPA were unclear on the extent to which purchase of non-performing loan portfolios conveyed (or might be deemed to convey) ownership risks and liabilities upon the company providing explicit statements in the Board document on: (i) the presence or absence of environmental risk; (ii) commercial liability relating to any such risk; and (ii) the exact basis for any policy exemption that might apply, would add clarity for the reader.

Overall performance ratings

EvD – *Successful* OPA – *Successful*



Reason for rating disconnect

No significant disconnect. EvD rates achievement of objectives as *good* rather than *excellent* as although performance was good, it had had less scope to help SMEs to restructure their debts and remain going concerns.

In terms of investment performance, the return to the Bank in Euro terms has been adversely affected by the devaluation of the local currency.

OPA quality observation

EvD found the OPA to be of high quality overall.

Table of 32 OPAVs released in 1H 2015

	Product	Portfolio	Sector	OPA rating	EvD rating
1	Equity & Loan	Private	Agribusiness	Successful	Equity: Successful Loan: Unsuccessful ▼
2	Loan	Private	Agribusiness	Highly successful	Highly successful
3	Loan	Private	Agribusiness	Successful	Successful
4	Loan	Private	Agribusiness	A: Partly Successful	A: Partly Successful
5	Loan	Private	Agribusiness	Partly successful	Partly successful
6	Loan	Private	Agribusiness	Highly successful	Successful ▼
7	Loan	Private	Agribusiness	Successful	Successful
8	Equity	Private	Equity Funds	Partly successful	Partly successful
9	Loan	Private	M&S	Partly successful	Partly successful
10	Loan	Public	M&S	Partly successful	Unsuccessful ▼
11	Loan	Private	M&S	Partly successful	Unsuccessful ▼
12	Loan	Private	Property & Tourism	Partly successful	Partly successful
13	Equity	Private	Property & Tourism	Partly successful	Partly successful
14	Equity	Private	Property & Tourism	Unsuccessful	Unsuccessful
15	Loan	Public	MEI	Successful	Successful
16	Loan	Public	MEI	Successful	Partly successful ▼
17	Loan	Public	MEI	Successful	Successful
18	Loan	Public	MEI	Successful	Successful
19	Loan	Private	Transport	Successful	Partly successful ▼
20	Loan	Public	Transport	Successful	Partly successful ▼
21	Loan	Public	Transport	Partly successful	Partly successful
22	Loan	Public	Transport	Partly successful	Unsuccessful ▼
23	Equity & Loan	Private	Natural Resources	Partly successful	Unsuccessful ▼
24	Equity & Loan	Private	Natural Resources	Partly successful	Unsuccessful ▼
25	Loan	Private	Natural Resources	Successful	Successful
26	Loan	Public	Power & Energy	Successful	Successful
27	Equity	Private	FI	Successful	Successful

28	Loan	Public	FI	Successful	Successful
29	Loan	Private	FI	Successful	Successful
30	Loan	Private	FI	Successful	Successful
31	Loan	Private	FI	Successful	Successful
32	Equity & Loan	Private	FI	Successful	Successful

Annex 1

Binary ratings gap

The Annual Evaluation Review discusses the binary ratings gap between self-assessment and evaluation over a five year period. The binary ratings gap looks at the proportion of ratings changed by EvD from a positive rating (upper 50 per cent) to a negative rating (lower 50 per cent) on the rating scale. This showed an upward bias in self-evaluation ratings for the period 2010 to 2014 of 13 per cent across all investment operation evaluations. This was a clear reduction from the 19 per cent rate for projects evaluated from 2005 to 2009, suggesting that the quality of self-assessments has improved over time.

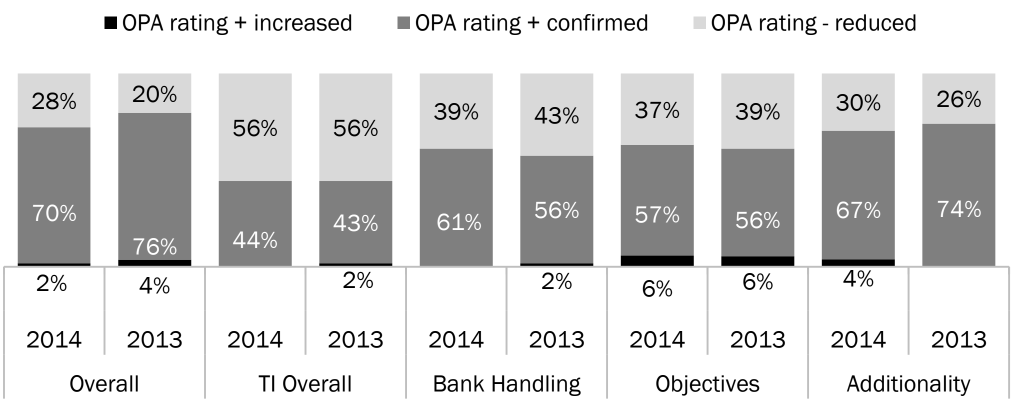
All ratings gaps, year on year

The binary ratings gap however does not capture ratings disconnects that occur within the positive and negative ranges, for example from *highly successful* to *successful* or from *partly successful* to *unsuccessful*).

A closer look at overall ratings (see figure 1) that were adjusted anywhere on the scale by EvD for OPAs produced as part of the 2013 and 2014 EvD Work Programmes respectively shows that in 2014, 28 per cent of ratings were reduced (15 out of 51 OPAs), compared with 20 per cent in 2013 (or 11 out of 54 OPAs) (the four point scale of overall performance being *highly successful*, *successful, partly successful* or *unsuccessful*, note OPAs sometimes bundle together projects with the same client). The increase in drops is only small (4 project evaluations) given the small sample size and it is therefore not possible to draw firm conclusions about a broader trend. It should be noted that there were a larger number of *unsuccessful* projects amongst the 2014 OPAs (11, 7 of which were downgraded, compared with just 4 *unsuccessful* projects in 2013). Amongst the 2014 sample of *unsuccessful* projects 4 were approved prior to 2007, unlike the 2013 ones. This may account for the increase in reductions. However, contradicting this possible explanation, in both 2013 and 2014, there were equal numbers of OPAs on projects approved prior to 2007.

The factors influencing the reduction by EvD of overall ratings are not clear from key sub criteria shown in the chart. The only increase in reductions shown here is in the area of additionality (by 4 per cent). A drop in reductions is evident in the areas of 'Bank handling' and 'achievement of objectives'. Clear evidence of the consistent link between the sub criteria and overall rating is something addressed by the new Performance Rating Methodology developed by EvD over 2013 to 2014 and which is being piloted in EvD Operation Evaluations and Special Studies this year. This will explain more clearly how ratings are derived and where weightings have been applied by the evaluator.

Figure 3:"Disconnect Ratio" between EvD and OPA ratings by category (by OPA year) where an adjustment was made anywhere across the rating scale for that category



An interesting comparison can be made with the binary disconnect ratio which shows a decrease in the number of OPAs where ratings were reduced by EvD in the OPAV. As may be expected, fewer ratings adjustments crossed the boundary from being positive (above 50 per cent on the 4 or 6 point rating scale for that criteria) to negative (below 50). However the trend between 2013 and 2014 is the opposite depending on which method is used. Overall, the chart which contains all adjustments wherever they take place across the 4 or 6 point scale is perhaps more useful for year on year observations.

Figure 4: Binary "disconnect ratio" between EvD and OPA ratings by OPA year (2013 & 2014)