**Annex IV.5: Additional Guidance Notes**

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

EP 8/9: Comparison of Direct and Indirect Evaluation Methods [[1]](#footnote-1)

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| --- | --- |
| EPs 8 and 9 cover the processes of direct evaluation by the CED, and indirect evaluation involving self-evaluation by operational staff and independent verification by the CED. The GPS covers evaluation and verification methods based on desk reviews and/or field-based stakeholder consultations. In general, the IFI should favour the more rigorous approaches as far as resources permit. The schematic (right) indicates the level of rigour typically associated with each approach and the related evaluation product.  Note that a desk-based PER should only be considered where the institution has collected regular monitoring data on the project. | annex4.5privatesector.png |

OP 10.2: Project Outcome – Extended Rating Scale

2. The project’s outcome is rated using benchmarks substantially consistent with the following:

*Highly Successful:* A project with overwhelming positive results, and no flaws.

*Successful:* A project with some strong results, and without material shortcomings.

*Mostly Successful:* A project with a clear preponderance of positive results (i.e., it may exhibit some minor shortcomings though these should be clearly outweighed by positive aspects). The guiding principle should be that if all the IFI’s projects exhibited this level of performance, the IFI should be able to demonstrate the successful execution of its institutional mandate.

*Mostly Unsuccessful:* A project with either minor shortcomings across the board, or an egregious shortcoming in one area that outweighs other generally positive results.

*Unsuccessful:* A project with largely negative results, clearly outweighing positive results.

*Highly Unsuccessful:* A project with material negative results and with no material redeeming positive results.

OP 11.2 : Outcome Indicator 1 – Financial Performance and Fulfilment of Project Objectives – Scope of Measurement for Project Types A, B and C

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

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

OP 11.3: Outcome Indicator 1 – Financial Performance and Fulfilment of Project Objectives – Extended Rating Scale for Project Types A, B and C

5. The project’s financial performance and fulfilment of project objectives is rated using the following benchmarks based on the methodology chosen as set out in OP 11.2 as follows: 1. Quantitative Method; 2. Achievement of Appraisal Projections; 3. Achievement of Objectives; 4. Analysis of Financial Statements; and 5. Business Prospects.

*Excellent:* 1. The project’s FRR or ROIC is equal to or greater than 1.25 x WACC.

2. Actual performance exceeds appraisal projections such that the project has demonstrably met its obligations to lenders and creditors, and has yielded a premium return to its shareholders well in excess of that commensurate with the project risk.

3. The project’s process and business goals articulated at approval are surpassed.

4. Performance indicators demonstrate clear outperformance against appraisal estimates.

5. The project company’s overall profitability and prospects for sustainability and growth are strong, such that it is expected to retain or achieve market-leading status.

*Satisfactory:* 1. The project’s FRR or ROIC is equal to or greater than the project company WACC.

2. Actual performance meets or exceeds appraisal projections such that the project has demonstrably met its obligations to lenders and creditors, and has yielded the minimally acceptable return to its shareholders commensurate with the project risk.

3. The project’s process and business goals articulated at approval are broadly achieved or are deemed within reach albeit with some risk to their realisation.

4. Performance indicators are in line with appraisal estimates.

5. The project company’s overall profitability and prospects for sustainability and growth are sound, such that it is expected to remain competitive in relation to the market and its sector peers.

*Partly (Un)satisfactory:* 1. The project’s FRR or ROIC is equal to or greater than 0.7 x WACC.

2. Actual performance has lagged appraisal projections such that the project has demonstrably met its obligations to lenders and creditors, but the return to shareholders is less than that deemed minimally acceptable albeit at least equal to the cost of debt.

3. At least one of the project’s process and business goals articulated at approval is not met.

4. Performance indicators have fallen short of appraisal estimates in one or more key areas.

5. The project company’s prospects for sustainability and growth are weak, such that it is struggling to remain competitive in relation to the market and its sector peers.

*Unsatisfactory:* 1. The project’s FRR or ROIC is lower than 0.7 x WACC.

2. Actual performance has lagged appraisal projections such that the project has failed to meet its obligations to lenders and creditors and/or has yielded a return to shareholders that is less than the cost of debt.

3. Most of the project’s process and business goals articulated at approval are not met.

4. Performance indicators have fallen short of appraisal estimates in the majority of key areas.

5. The project company’s prospects for sustainability and growth are weak or negative, such that it is clearly underperforming in relation to the market and its sector peers.

OP 11.5 : Outcome Indicator 1 – Financial Performance and Fulfilment of Project Objectives – Scope of Measurement for Project Type D2

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

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

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



where: *En* is the amount of the fund actually invested in country *n;  
Cd* is the 10 year fixed rate swap equivalent of 6 month LIBOR, as at the date of commitment; and  
*cn* is the spread applied by the IFI’s pricing policy in respect of country *n* to reflect country macro risk, as at the date of commitment.  
  
This formula assumes that the fund comprises only equity funding, and is not leveraged through debt.

OP 11.5 : Outcome Indicator 1 – Financial Performance and Fulfilment of Project Objectives – Extended Rating Scale for Project Types D1 and D2

6. The project’s financial performance and fulfilment of project objectives is rated using the following benchmarks based on the methodology chosen as set out in OP 11.4 as follows: 1. Performance of Sub-Portfolio; 2. Performance of Fund Portfolio; 3. Achievement of Objectives; and 4. Performance of Intermediary.

*Excellent:* 1. There is strong evidence (quantitative or qualitative) that the sub-portfolio has substantially raised the financial intermediary’s profitability, and substantially improved its viability.

2. The projected or realized net return on equity (RoE) or net IRR to the fund’s investors is equal to or greater than the FWACC x 1.25

3. The project’s business and process goals articulated at approval are surpassed. The intermediary has substantially increased its reach to sub-borrowers or investee groups that were specified as targets at approval.

4. The intermediary’s overall profitability, adaptability and prospects for sustainability and growth are strong, such that it is expected to retain or achieve market-leading status.

*Satisfactory:* 1. There is adequate evidence (quantitative or qualitative) that the sub-portfolio has had a positive effect on the financial intermediary’s profitability, and helped improve its viability.

2. The projected or realized net RoE or net IRR to the fund’s investors is equal to or greater than the fund’s weighted average cost of capital (FWACC).

3. The project’s business and process goals articulated at approval are broadly achieved or are deemed within reach albeit with some risk to their realisation. The intermediary has succeeded in reaching sub-borrowers or investee groups that were specified as targets at approval.

4. The intermediary’s overall profitability, adaptability and prospects for sustainability and growth are sound, such that it is expected to remain competitive in relation to the market and its sector peers.

*Partly (Un)satisfactory:* 1. There is evidence (quantitative or qualitative) that the sub-portfolio has had a negative effect on the financial intermediary’s profitability and/or detracted from its viability.

2. The projected or realized net RoE or net IRR to the fund’s investors is equal to or greater than the FWACC x 0.7.

3. At least one of the project’s business and process goals articulated at approval is not met. The intermediary has failed to reach sub-borrowers or investee groups that were specified as targets at approval.

4. The intermediary’s overall profitability, adaptability and prospects for sustainability and growth are weak, such that it is struggling to remain competitive in relation to the market and its sector peers.

*Unsatisfactory:* 1. There is evidence (quantitative or qualitative) that the sub-portfolio has had a substantial negative effect on the financial intermediary’s profitability and/or harmed its viability.

2. The projected or realized net RoE or net IRR to the fund’s investors is less than the FWACC x 0.7.

3. Most of the project’s business and process goals articulated at approval are not met. The intermediary has failed to reach sub-borrowers or investee groups that were specified as targets at approval and/or has used funds to support undesirable sub-borrowers.

4. The intermediary’s overall profitability, adaptability and prospects for sustainability and growth are negative, such that it is clearly underperforming in relation to the market and its sector peers.

OP 12.3 : Outcome Indicator 2 – Economic Sustainability – Extended Rating Scale for Project Types A, B and C

7. The project’s economic sustainability is rated using the following benchmarks based on the methodology chosen as set out in OP 12.2, either: 1. Quantitative Method; or 2. Qualitative Stakeholder Analysis.

*Excellent:* 1. The ERR or EROIC is equal to or greater than the larger of either: (i) a multiple of 1.75 times the project company WACC; or (ii) 17.5%.

2. The project meets the minimum standard for satisfactory financial performance and there is evidence that: (i) it has generated substantial net economic benefits for its wider stakeholders (i.e., those other than the project company’s owners and financiers); and (ii) it does not rely on economic distortions to maintain its commercial viability.

*Satisfactory:* 1. The ERR or EROIC is equal to or greater than the larger of either: (i) a multiple of 1.2 times the project company WACC; or (ii) 10%. A positive rating may also be awarded if the ERR or EROIC falls short of the quantitative benchmark, but there are other material un-quantified net economic benefits that could be expected to raise the ERR or EROIC sufficiently.

2. Either: (i) the project meets the minimum standard for satisfactory financial performance and there is evidence that it has generated a balance of benefits for its wider economic stakeholders (i.e., those other than the project company’s owners and financiers); or (ii) the project just fails to meet the minimum standard for satisfactory financial performance, but there is evidence that it has generated substantial net benefits for its wider economic stakeholders. In either case, the project should not rely on economic distortions to maintain its financial performance.

*Partly (Un)satisfactory:* 1. The ERR or EROIC is equal to or greater than the larger of either: (i) a multiple of 0.8 times the project WACC; or (ii) 5%.

2. Either: (i) the project fails to meet the minimum standard for satisfactory financial performance and there is insufficient evidence of significant net economic benefits for its wider stakeholders (i.e., those other than the project company’s owners and financiers); or (ii) the project relies on economic distortions to maintain its commercial viability.

*Unsatisfactory:* 1. The ERR or EROIC is less than the larger of either: (i) a multiple of 0.8 times the project WACC; or (ii) 5%.

2. The project fails to meet the minimum standard for satisfactory financial performance and has resulted in net economic costs for its wider stakeholders (i.e., those other than the project company’s owners and financiers).

OP 12.5 : Outcome Indicator 2 – Economic Sustainability – Extended Rating Scale for Project Types D1 and D2

8. The project’s economic sustainability is rated using the following benchmarks based on the methodology chosen as set out in OP12.4 , either: D1. Economic Activities of Sub-Borrowers; or D2. Economic Viability of Fund Investees.

*Excellent:* D1. Both: (i) the project has succeeded in reaching targeted groups of sub-borrower; and (ii) there is direct evidence (from sub-portfolio data) that sub-borrowers have made strong economic contributions, or indirect evidence (from market data) that market sectors supported by the project and/or more generally by the financial intermediary are major economic contributors to society.

D2. Both: (i) the gross equity fund portfolio return (before management fees) is equal to or greater than the FWACC x 1.75; and (ii) at least half of equity fund investees have positive equity returns. There is direct evidence (from sub-portfolio data) that investees are economically viable, or indirect evidence (from market data) that market sectors supported by the project are major economic contributors to society.

*Satisfactory:* D1. Both: (i) the project has succeeded in reaching targeted groups of sub-borrower; and (ii) there is direct evidence (from sub-portfolio data) that sub-borrowers are economically viable, or indirect evidence (from market data) that market sectors supported by the project and/or more generally by the financial intermediary are economically viable and do not rely on economic distortions to maintain their commercial viability.

D2. Either: (i) the gross equity fund portfolio return (before management fees) is equal to or greater than the FWACC x 1.2; or (ii) at least half of equity fund investees have positive equity returns yet the gross portfolio return (before management fees) is less than FWACC x 1.2 but not less than the FWACC x 0.8. In either case, there is direct evidence (from sub-portfolio data) that investees are economically viable, or indirect evidence (from market data) that market sectors supported by the project are economically viable and do not rely on economic distortions to maintain their commercial viability.

*Partly (Un)satisfactory:* D1. Either: (i) the project has largely failed to reach targeted groups of sub-borrower; or (ii) there is direct evidence (from sub-portfolio data) that most sub-borrowers are not economically viable, or indirect evidence (from market data) that market sectors supported by the project and/or more generally by the financial intermediary are weak economic contributors to society.

D2. Both: (i) the gross equity fund portfolio return (before management fees) is equal to or greater than the FWACC x 0.8; and (ii) more than half of the fund’s investees have zero or negative equity returns. There is direct evidence (from sub-portfolio data) that most investees are not economically viable, or indirect evidence (from market data) that market sectors supported by the project are weak economic contributors to society and/or rely on economic distortions to maintain their commercial viability.

*Unsatisfactory:* D1. Both: (i) the project has largely failed to reach targeted groups of sub-borrower; and (ii) there is direct evidence (from sub-portfolio data) that most sub-borrowers are not economically viable, or indirect evidence (from market data) that market sectors supported by the project and/or more generally by the financial intermediary are weak economic contributors to society.

D2. The gross equity fund portfolio return (before management fees) is less than FWACC x 0.8; and/or nearly all of the fund’s investees have zero or negative equity returns. There is direct evidence (from sub-portfolio data) that most investees are not economically viable, or indirect evidence (from market data) that market sectors supported by the project are weak economic contributors to society and/or rely on economic distortions to maintain their commercial viability.

OP 13.1: Outcome Indicator 3 – Contribution to IFI Mandate Objectives – Component Definitions

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

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

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

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

*Frameworks for markets (institutions, laws and policies that promote market functioning and efficiency):* Creation or strengthening of public and private institutions that support the efficiency of markets; improvements to the functioning of regulatory entities and practices; contributions to government policy formation and commitment, promoting competition, predictability and transparency; contributions to laws that strengthen the private sector and an open economy.

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

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

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

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

*Development of physical infrastructure*: used by other private parties.

**OP 13.2: Outcome Indicator 3 – Contribution to IFI Mandate Objectives – Extended Rating Scale**

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

*Excellent:* Considering its size, the project had: (a) substantial positive effects consistent with the IFI’s mandate objectives (for example, in furthering the country’s private sector development, development of efficient financial / capital markets, or transition to a market economy); and (b) no negative impacts in this respect.

*Satisfactory:* The project had: (a) demonstrable effects consistent with the IFI’s mandate objectives (for example, in furthering the country’s private sector development, development of efficient financial / capital markets, or transition to a market economy); and (b) a clear preponderance of sustainable positive impacts in this respect.

*Partly (Un)satisfactory:* The project had mainly negative effects in respect of the IFI’s mandate objectives (for example, in furthering the country’s private sector development, development of efficient financial / capital markets, or transition to a market economy), but these negative effects are not expected to be of long duration or broad applicability.

*Unsatisfactory:* The project had substantial negative effects in respect of the IFI’s mandate objectives (for example, in furthering the country’s private sector development, development of efficient financial / capital markets, or transition to a market economy), and these impacts are likely to be widespread, of long duration, or both.

*Neutral:\** The project made no discernable contribution, either positive or negative, to the IFI’s mandate objectives (for example, in furthering the country’s private sector development, development of efficient financial / capital markets, or transition to a market economy). This is distinct from a project with a balance of observed positive and negative impacts in which case a performance rating should be assigned.

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

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

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

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

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

EP 14: Optional Supplementary Indicator – Extent of Environmental and Social Change / Impact

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

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

OP 14.2: Outcome Indicator 4 – Environmental and Social Performance – Extended Rating Scale for Project Types A, B and C

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

*Excellent:* The company meets both the IFI’s at-approval requirements (including implementation of an ESAP, if any) and the IFI’s at-evaluation requirements, and the extent of environmental and social change / impacts: (i) go beyond the expectations of the ESAP and key environmental and social requirements, or (ii) have materially improved overall environmental and social performance, or (iii) have contributed to a material improvement in the environmental and social performance of local companies (e.g., by raising industry standards, acting as a good practice example, etc.).

*Satisfactory:* The company is in material compliance with the IFI’s at-approval requirements (including implementation of an ESAP, if any).

*Partly (Un)satisfactory:* Both: (a) the company is not in material compliance with the IFI’s at-approval requirements (including implementation of an ESAP, if any), but is addressing deficiencies through on-going or planned actions; and (b) such non-compliance has not resulted in environmental damage.

*Unsatisfactory:* Both: (a) the company is not in material compliance with the IFI’s at-approval requirements (including implementation of an ESAP, if any); and (b) mitigation prospects are uncertain or unlikely, or non-compliance resulted in substantial and permanent environmental damage.

*Not Applicable:* Where, by virtue of the project’s expected lack of environmental and social impacts, the IFI had not prescribed any at-approval environmental and social requirements, a rating of Not Applicable may be assigned. However, should the project have subsequently changed in scope and given rise to environmental and social impacts, its performance should be rated accordingly against the standards that would have been prescribed had this been known at approval.

*No Opinion Possible:* Where, after best efforts, the relevant information to establish material compliance (or lack thereof) cannot be obtained, a rating of No Opinion Possible may be assigned. This rating should be a last resort, after reasonable effort has been made to obtain the necessary information. The company’s failure to report should result in a partly unsatisfactory or unsatisfactory rating only if it has repeatedly refused to cooperate on this issue.

OP 14.2 : Outcome Indicator 4 – Environmental and Social Performance – Extended Rating Scale for Project Types D1 and D2

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

*Excellent:* The extent of environmental and social change / impacts: (i) go beyond the expectations of the ESAP and key environmental and social requirements, or (ii) have materially improved overall environmental and social performance, or (iii) have contributed to a material improvement in the environmental and social performance of local companies (e.g., by raising industry standards, acting as a good practice example, etc.). In addition, the company has provided transparent and timely reports, verifying that the project has consistently met the IFI’s at-approval requirements, and as applicable, sub-projects have been appropriately appraised and supervised and their adverse environmental and social impacts have been mitigated, and that the environmental and social performance is deemed acceptable in view of the IFI’s current requirements.

*Satisfactory:* The company has implemented an appropriate Environmental & Social Management System (ESMS), which has been functioning over the project life (as reflected also in environmental and social standards being applied to projects financed by the intermediary). If required by the IFI’s specified standards at approval, the environmental and social performance of sub-projects / fund investee companies are in material compliance with the IFI’s requirements.

*Partly (Un)satisfactory:* The company is not in material compliance with the IFI’s at-approval requirements (including implementation of an ESMS), but is addressing deficiencies through on-going or planned actions and negative impacts are moderate. For example: the FI's ESMS is adequate, but some sub-projects have resulted in environmental damage that has not been corrected; or the sub-projects have acceptable environmental standards, but the ESMS is materially inadequate; or the company initially had no ESMS, but has recently introduced a functioning ESMS.

*Unsatisfactory:* Both: (a) the company is not in material compliance with the IFI’s at-approval requirements (including implementation of an ESMS); and (b) mitigation prospects are uncertain or unlikely, or sub-projects’ non-compliance resulted in substantial and permanent environmental damage.

*Not Applicable:* Where, by virtue of the project’s expected lack of environmental and social impacts, the IFI has not prescribed any at-approval environmental and social requirements, a rating of Not Applicable may be assigned. However, should the project have subsequently changed in scope and given rise to environmental and social impacts, its performance should be rated accordingly against the standards that would have been prescribed had this been known at approval.

*No Opinion Possible:* Where, after best efforts, the relevant information to establish material compliance (or lack thereof) cannot be obtained, a rating of no opinion possible may be assigned. This rating should be a last resort, after reasonable effort has been made to obtain the necessary information. The company’s failure to report should result in a partly unsatisfactory or unsatisfactory rating only if it has repeatedly refused to cooperate on this issue.

1. The generic standards on independence of evaluation departments were excluded from the GPS on Evaluation of Private Sector Operations as these already constitute [Chapter II of the Big Book which contain GPS on Independence of IFIs’ CED](/LotusQuickr/ecg/PageLibrary48257B910010370B.nsf/h_Toc/BAE2AD8358BE35F948257B9600294DDD/?OpenDocument) (June 2010). The same treatment was done on specific standards on indirect evaluation (otherwise referred to as self-evaluation) which are presented in [Chapter VI on Self-Evaluation](/LotusQuickr/ecg/PageLibrary48257B910010370B.nsf/h_B6C976661FFF2E4C48257B96002C7914/55093303FBEBB85A48257B96002C7C44/?OpenDocument&Form=h_PageUI). Relatedly, GPS on Evaluation of Private Sector Operations use the terms “direct and indirect” evaluation to refer to self- and independent evaluation, respectively, to acknowledge the differences in terminology used in the different IFIs which reflect the nature of CED’s interface with an actual project (based on clarification from consultant of ECG WGPSE.). [↑](#footnote-ref-1)