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PS-125

***OVE GUIDELINES FOR
IMPLEMENTATION OF ECG
STANDARDS FOR PRIVATE
SECTOR EVALUATIONS***

Office of Evaluation and Oversight

Inter-American Development Bank
Washington, D.C.

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ACRONYMS

AfDB:	African Development Bank
AsDB:	Asian Development Bank
CAPEX:	Capital Expenditure
CRG:	Managerial Review Committee
DO	Development Objectives
EBRD:	European Bank for Reconstruction and Development
ECG:	Evaluation Cooperation Group
EIB:	European Investment Bank
EMS:	Environmental Management System
ERR:	Economic Rate of Return
ESHS:	Environmental, Social, Health and Safety
FRR:	Financial Rate of Return
GPS-IO:	Good Practice Standards for Evaluation of Private Investment Operations
IDB:	Inter-American Development Bank
IFC:	International Finance Corporation
IIC:	Inter-American Investment Corporation
IMF:	International Monetary Fund
IRR:	Internal Rate of Return
FI:	Financial Intermediaries
LERN:	Lessons Learned Retrieval Network
LMS:	Loan Management System
LLM:	Lessons Learned Memorandum
MDBs:	Multilateral Development Banks
MIF:	Multilateral Investment Fund
MIGA:	Multilateral Investment Guarantee Agency
NPV:	Net Present Value
OVE	Office of Evaluation and Oversight
PCR:	Project Completion Report
PPM:	Project Performance Monitoring System
PPMR:	Project Performance Monitoring Report
PRI:	Private Sector Department
PRIS:	Private Sector Department Information Management System
SAR:	Semi-Annual Report
WBG:	World Bank Group
WACC	Weighted Average Cost of Capital
WGPSE:	Working Group on Private Sector Evaluation
XPSR:	Expanded Project Supervision Report

I. INTRODUCTION

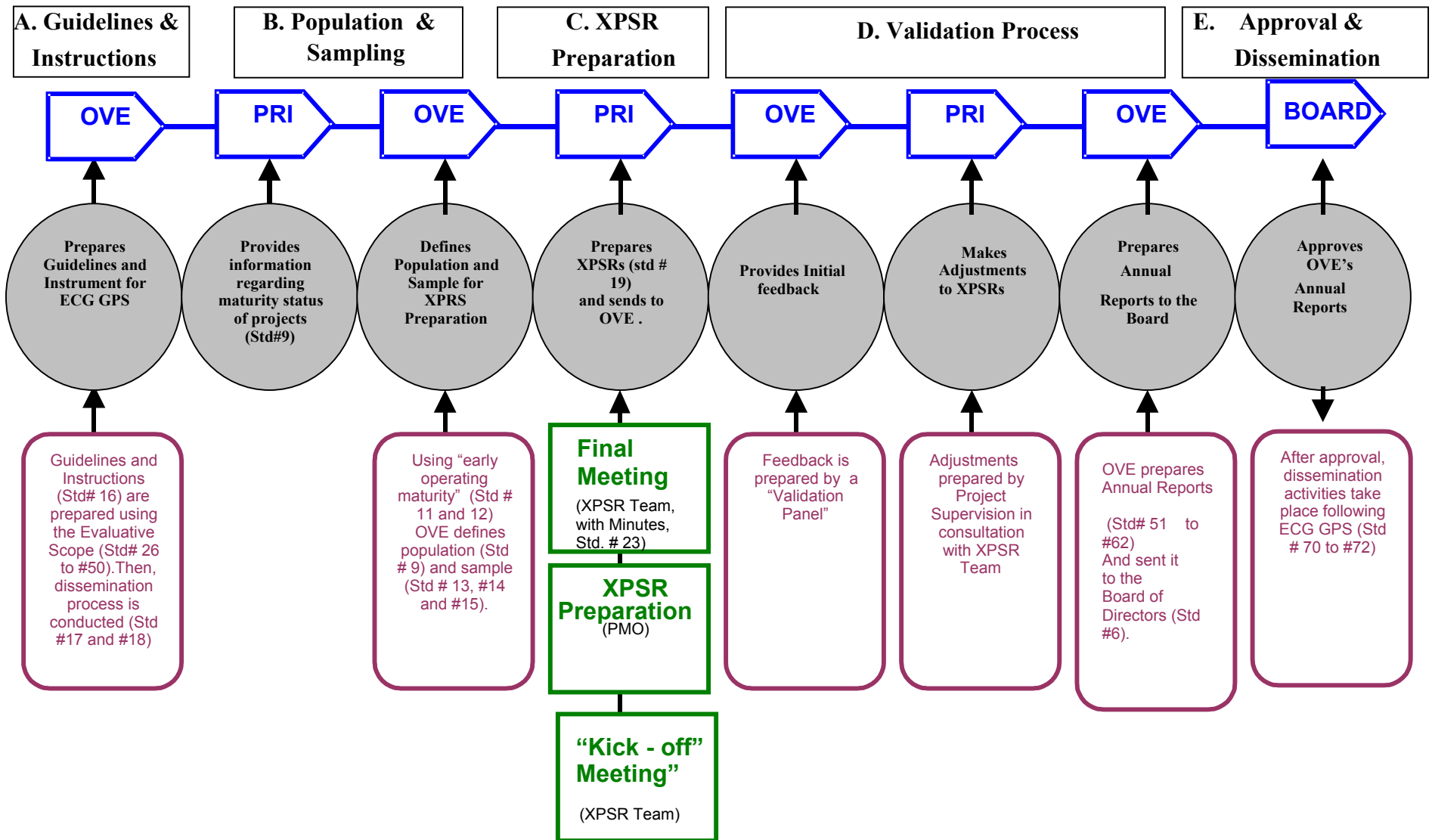
- 1.1. This document presents the guidelines that will be used by the Private Sector Department (PRI) to prepare its Expanded Project Supervision Report (XPSR). The XPSR will help IDB to comply with the Evaluation Cooperation Group (ECG) Good Practice Standards (GPS) and to initiate a process of improving good practices in the Inter-American Development Bank (IDB).
- 1.2. The XPSR builds on the basic monitoring reports already in place – Project Supervision Reports (PSRs) and Project Performance Monitoring Report (PPMRs)¹ - by adding information requirements that are relevant for a self-evaluation document, such as issues relating to achievement of development outcomes, environmental performance, contribution to the country living standards and lessons learned. The XPSR fulfills the function of a Project Completion Report (PCR).

II. THE GPS IMPLEMENTATION PROCESS

- 2.1 **GPS implementation is defined as the process of assessing the performance of completed projects through systematic analysis of their outcomes and outputs against expected results.** The GPS implementation considers financial results and economic benefits of the projects as well as the IDB/PRI performance. The GPS implementation process provides a system of accountability of project outcomes for Managers, the Board of Directors and the stakeholders.
- 2.2 **The GPS implementation process involves many actors** consisting of PRI Management, PRI Staff involved in the operation process - including support departments and units- the Office of Evaluation and Oversight (OVE) and PRI clients.
- 2.3 **The GPS implementation process comprises several steps** (see flowchart below): including: preparation of guidelines and instructions; definition of population and sampling; XPRS preparation; OVE validation and result dissemination.

¹ Starting in 2004, PRI prepares Logical Framework and annual PPMRs for all its projects. This is an IDB requirement; no other MDB has these kind of requirement.

FlowChart - The GPS Implementation Process



A. Guidelines & Instructions

2.4 **OVE is the Central Evaluation Department (CED) of the Inter-American Development Bank (Std.# 1 through 8).** The CED prepares, refines and disseminates instructions for implementation of the ECG standards (Std.# 16). The instructions presented below include rating guidelines with benchmarks and standard reporting templates (Std.#17).

B. Population and Sampling Process

a. Completed Projects:

2.5 **As a general rule, all projects that are completed are subject to evaluation.** With respect to non-financial institution operations, a project is considered completed or “having reached early operating maturity” if, after the last disbursement of loans the project financed has generated at least 18 months of operating revenues or 5 years has elapsed from approval date.

2.6 **From these projects, OVE applies sampling criteria in order to select which projects should prepare an XPSR² and PRI and OVE agree on a submission schedule for validation within the year of completion.**

b. Incompleted Projects:

2.7 **For signed projects that were cancelled before a disbursement took place,** the Team leader prepares a Lessons Learned Memorandum (LLM), within 3 months of the cancellation. The LLM should describe, if any, the lessons learned and highlights the reasons why the project was cancelled.

2.8 OVE reviews the LLM to identify important lessons learned from cancelled projects.

2.9 **For projects which were cancelled but where some disbursements have already taken place** and have reached early operating maturity, the Team Leader should prepare an XPSR within 6 months after cancellation.

2.10 **For fully pre-paid projects,** the Team Leader should prepare an XPSR within 6 months after pre-payment, as long as the project has reached early operating maturity.³

2.11 **In both cases, OVE reviews the XPSRs** to verify the scope, responsiveness, reliability and impartiality of the ratings applied by the analysts.

² Std. #9: “Taking into consideration information on project maturity status provided by other departments, CED determines the *population* from which the investments to be evaluated each year are to be drawn”.

³ Std. #10: “The population includes all disbursed (including partially cancelled) investment whether still active or already closed (paid-off, sold or written off) that have reached early operating maturity. The population includes investment already closed, even if they never reached early operating maturity”.

c. Impaired projects:

- 2.12 **The timing of evaluation of impaired projects is delicate because an evaluation may interfere with ongoing recovery work and because the Bank tries to exit from these impaired projects at the least possible cost.** Thus, PRI will seek advice from the Legal Department (LEG) before engaging in any evaluation work that involves contact with the project company. In case LEG does not recommend such a contact, an Internal XPSR desk review type will be prepared relying on internal and other sources of information and stating which sources were not contacted.
- 2.13 **OVE and PRI must cooperate closely in the selection and the timing of the impaired project for the validation exercise.** OVE will validate the Internal XPSR.

C. XPSR Preparation.

- 2.14 **Preparation of the XPSR is the responsibility of the Portfolio Management Officer (PMO) and the Team Leader** responsible for project supervision and execution with the participation of the Structuring, Product Development and Evaluability Unit, and the Environmental and Social Unit.
- 2.15 **The XPSR Structure is composed of six sections:** (i) Staff Information; (ii) Statistical Information; (iii) Performance dimension; (iv) Lessons identified; (v) Internal Peer Review; (vi) Annexes.

(i) XPSR Staff Information

- 2.16 **The XPSR is a key moment for presenting the results the project has achieved, ensuring its sustainability and defining lessons learned** in order to capitalize on all the information gathered during the life of the project as well as the experience of the team members. This explains the need for a highly participatory process based on the interaction among all actors and not only the actions of a single project member.

(ii) Statistical Information.

- 2.17 **The XPSR should be able to optimize the use of existing information readily available from other monitoring systems,** such as the Project Performance Monitoring System (PPMR system), the Loan Management System (LMS), and the PRIS System. Part of the data could be automatically generated from these systems while the rest of the data should be prepared by the Preparation Team.

(iii) Performance Dimensions

- 2.18 **The XPSR evaluates three Performance Dimensions using ten quantitative and qualitative standards indicators,** complying with both GPS and PCR requirements (see Table 1).

Table 1: Performance Dimension and Standards Indicators.

Performance Dimension	Standards Indicators (Std. # 27)
Project Development Outcome (Std. #26)	Project Contribution to Company Business Success (Std. 31)
	Project Contribution to Private Sector Development (Std. #31)
	Project Economic Viability (Std. #33)
	Project Contribution to the Country Living Standards (Std. #34)
	Project ESHS Impact and Sustainability (Std. 35)
	<i>Project Expected Outcome and Output Analysis (PCR Compliance)*</i>
Project Investment Profitability for IDB (Std. #26)	Project Gross Profit Contribution to IDB (Std. #36)
IDB's Operational Effectiveness (Std. #26)	Screening, Appraisal and Structuring Work (Std. #37)
	Monitoring and Supervision Quality (std. #38)
	Role, Contribution and Additionality (Std. #39)

* This is only for projects that have logical framework and PPMRs from 2004 on. This rating will not be counted towards Project Development Outcome overall rating.

2.19 Each of the performance dimensions and each of the Standard indicators are assigned a rating according to a matrix that uses a standard four-point scale for each indicator rating. The scale ranges are (1) Highly Unsatisfactory, (2) Unsatisfactory, (3) Satisfactory, (4) Highly Satisfactory.⁴

(iv) Lessons Identified

2.20 **The XPSR should identify important lessons for improving PRI investment in the future, its role and its operational effectiveness from the experience to date.** The lessons may be positive - things that worked well and could be repeated - or negative - mistakes that should be avoided. The lessons should be transparent, prescriptive, and operationally oriented in order to provide guidance for improving future performance (Std. # 65).

(v) Internal Peer Review

2.21 **The process includes an Internal Peer Review Meeting.** The minutes from the meeting should discuss the following issues: (1) Identification of possible inconsistencies and deficiencies in the XPSR that need to be corrected. (2) Ratification and/or modification of the XPSR ratings. (3) Specific recommendations to improve PRI capacity to screen, design and implement future operations. The Internal Peer Review Meeting constitutes the end of the self-evaluation exercise. The minutes from this meeting should be incorporated as an Annex of the XPSR.

(vi) Annexes

2.22 The XPSR Annexes are composed by the following documents:

1. Internal Peer Review Minutes.

⁴ The Rating Methodology is explained in Chapter III.

2. **Survey to Borrowers.** IDB values the feedback from clients greatly on how they consider the Bank has performed. Client's feedback should be incorporated in the evaluation reports.
3. **Additional information** (if needed). This refers to further information, quantitative or qualitative, illustrating and supporting project results. Also, the additional information section could include details of the financial and economic rate of return deviations (Std. #49).

D. Validation Process

- 2.23 **OVE has the mandate to validate the results of each project evaluation,** covering all XPSR prepared by PRI. During its validation exercise, OVE can also request additional information from PRI Management.

E. Approval and Dissemination:

- 2.24 **OVE should include the results of the XPSR validation in its Annual Report submitted to the Board of Directors.** Following GPS (std. #63), OVE will report on the results derived from the performance rating patterns for the projects reviewed and lessons learned. These lessons will be added to IDB on-line best practices database, by publishing in the Lessons Learned Retrieval Network (LERN) system.⁵

- 2.25 In order to protect client company confidentiality (Std. #70), OVE does not disclose individual evaluation reports (Std.#71). The IDB disclosure policy for evaluation projects should be explicit. The dissemination process should be based on the Bank Information Disclosure Policy (OP-102).

III. THE RATING METHODOLOGY

- 3.1 This section describes the rating methodology that should be applied in the PRI evaluation exercise and OVE validation. The XPSR evaluates three Performance Dimensions (std. #26) (A) Project Development Outcome, (B) Project Investment Profitability for IDB, and (C) IDB Operational Effectiveness, rated according to benchmarks that include quantitative and qualitative standards indicators.

A. Project Development Outcome

- 3.2 For the Project Development Outcome dimension, the overall rating is constructed by measuring five standard indicators: 1. Project Contribution to Company Business Success (Std. #31), 2. Project Contribution to Private Sector Development (Std. # 32), 3. Project Economic Viability (std. #33), 4. Project Contribution to the Country Living Standards (std. #34) and 5. Project ESHS Impact and Sustainability (std. #35 and #30). Each standard indicator is rated following specific benchmarks (Tables 2 to 7).

⁵ PRI and OVE could arrange for another mechanism to be used to disseminate lessons learned if this system is considered not appropriate.

1. Project Contribution to Company Business Success

- 3.3 **At the company level, the analysis of the project development outcome is partly based on the project contribution to the company business success comparing expected and actual results** (see Table 2), measured mainly:
- For capital expenditure projects:** by the project after-tax financial rate of return (FRR);
 - For financial markets projects:** by portfolio profit contribution to the financial intermediary or investment fund;⁶
 - For other projects:** by the project profit contribution and the achievements of the company business objectives.
- 3.4 The analysis is complemented by the information from other variables such as: Capex, Project revenue, operating costs, profitability to shareholders, construction time and time to reach operational level. This information is collected from clients through surveys and public information.

Table 2: Rating Criteria for Project Contribution to Company Business Success*

Rating	Benchmarks
Highly Satisfactory	$FRR \geq WACC + 2.5\%$
Satisfactory	$FRR \geq WACC$
Unsatisfactory	$FRR \geq WACC - 2\%$
Highly Unsatisfactory	$FRR < WACC - 2\%$

(*) In the cases where WACC could not be calculated - i.e. Project Finance structured with “Special Purpose Companies”- , FRR should be used. The benchmarking should be applied as follows: Highly Satisfactory: FRR higher than expected (or higher than 12%). Satisfactory: FRR as expected (or between 10% and 12%). Unsatisfactory: FRR lower than expected (or between 7% and 9%). Highly unsatisfactory: FRR much lower than expected (or lower than 7%).

2. Project Contribution to Private Sector Development

- 3.5 At the sector level, the analysis of the project development outcome is partly based on the project contribution to the country’s private sector development. The analysis can be complemented by the project contribution to the development of efficient capital markets.
- 3.6 **The analysis of the project development outcome should measure the capacity of the IDB to foster demonstration effects in the country.** These effects can be obtained by supporting sustainable models where private investments can flourish without multilateral supports and other government interventions. Sustainable models also require good institutional, regulatory and legal frameworks, absence of restrictions, competition and a good investment climate.

⁶ It should be noted that this criteria is only applicable for a subset of projects that PRI has in the financial sector.

- 3.7 These analysis should also consider: (i) the strategy adopted by the Bank to support private sector development in the sector; (ii) the perception of different stakeholders regarding the project and whether it could foster private sector development in the sector in the future; (iii) investments undertaken in the sector after project intervention; (iv) the situation in the country, sector or region without the project (see Table 3).

Table 3: Rating Criteria for Project Contribution to Private Sector Development

Rating	Benchmarks
Highly Satisfactory	Projects that: improved or supported a sustainable model for private sector investments and where there is concrete evidence that demonstration effects have taken place. (Project that: opened or were among the first ones to introduce private participation in the sector; were followed by other investments or similar mechanisms of intervention; introduced competence in a sector; improved the regulatory, institutional and legal framework of the country to allow private sector investments and; mobilized new actors for the country that are now involved in other projects).
Satisfactory	Projects that: improved or supported a sustainable model for private sector investments but there is not clear evidence that demonstration effects have taken place. (Project that: opened or were among the first ones to introduce private participation in the sector; introduced competence in a sector, improved the regulatory, institutional and legal framework of the country to allow private sector investments and; mobilized new actors for the country that are now involved in other projects; <u>but</u> they were not followed by other investments and new interventions could be required to create a demonstration effect).
Unsatisfactory	Projects that: took place under an investment climate or model that was not clear if it was sustainable model for private sector investments but where there was at least a Bank strategy to overcome those difficulties. (Project that: opened or were among the first ones to introduce private participation in the sector; introduced competence in a sector; improved the regulatory, institutional and legal framework of the country to allow private sector investments; <u>but</u> there was a lack of clarity about the sustainability of the model to promote private sector investments).
Highly Unsatisfactory	Project that: supported a model where there was clear evidence that it was unsustainable for private sector investments. (Project that: have worsened the investment climate by increasing opposition to the project among stakeholders; created bad demonstration effects or consolidated monopolies in the sector).

3. Project Economic Viability

- 3.8 At the level of the overall country/region economy, the analysis of the project development outcome is measured through its economic viability and its contribution to living standards (see Table 4).
- a. **For non-financial market operations:** the rating is based mainly on the project net quantifiable economic benefits and costs as measured by the project real economic rate of return (ERR).
 - b. **For financial market operations:** The rating is based on whether the sub-projects financed: (i) are economically viable; (ii) led to use of economic

viability criteria in the intermediary or investment company investment decisions and; (iii) created benefits to the economy.

Table 4: Rating Criteria For Project Economic Viability

Rating	Benchmarks	
	For Non Financial market Operations	For Financial Market Operations
Highly Satisfactory	ERR \geq 20%	When the vast majority of sub-projects are economically viable , the project has made a substantial and widespread contribution to improving living standards or the project has substantially increased the efficiency of financial markets. (A sub-project is economically viable when the sub-borrower portfolio quality is better than, or equal to the highest of the rest of the FI's loan portfolio or the market average).
Satisfactory	ERR \geq 10%	When most of the sub-projects are economically viable or the project has positively influenced the efficiency of financial markets. (A sub-project is economically viable when the sub-borrower portfolio quality is better than, or equal to the highest of the rest of the FI's loan portfolio or the market average).
Unsatisfactory	ERR \geq 5%	When most of the sub-projects are not economically viable or the project has positive contribution to the efficiency of financial markets. (A sub-project is not economically viable when the sub-borrower portfolio quality is worse than the highest of the rest of the FI's loan portfolio or the market average).
Highly Unsatisfactory	ERR $<$ 5%	When the majority of sub-projects are not economically viable or the project negatively affected the efficiency of financial markets. (A sub-project is not economically viable when the sub-borrower portfolio quality is worse than the highest of the rest of the FI's loan portfolio or the market average).

4. Project Contribution to the Country Living Standards

3.9 **At the level of the country living standards, the analysis of the project development outcome is gauged, using quantitative and qualitative criterias, to measure project economic benefits and costs to financiers, i.e. customers, employees, government, suppliers, competitors and local residents. In particular, the qualitative analysis compares the relationship between ERR and FRR by reasoning that if the ERR is higher than the FRR, there are benefits accruing to people who are not at risk in the project (Table 5).**

Table 5: Rating Criteria For Project Contribution to the Country Living Standards

Rating	Benchmarks
Highly Satisfactory	Quantitative measure: $ERR > FRR$ Qualitative measure: the project has helped to reduce the cost of goods and service for the population improving the consumer affordability; it has improved coverage and quality of service; it has improved health and safety of the affected population and the surrounding environment; and it has increased employment.
Satisfactory	Quantitative measure: $ERR > FRR$ Qualitative measure: project has some shortfall in <u>one</u> of the following areas: coverage and quality of service; health and safety affecting population and the surrounding environment; employment, cost of goods and service for the population.
Unsatisfactory	Quantitative measure: $ERR < FRR$ Qualitative measure: project has material shortfall in <u>two</u> of the following areas: coverage and quality of service; health and safety affecting population and the surrounding environment; employment, cost of goods and service for the population.
Highly Unsatisfactory	Quantitative measure: $ERR < FRR$ Qualitative measure: the project has not improved coverage and quality of service; it has not improved health and safety of the affected population and the surrounding environment; it has actually increased the cost of goods and services for the population decreasing the consumer affordability; and decreased the employment.

5. Project Environmental, Social and Health and Safety (ESHS) Impacts

- 3.10 **At the level of the ESHS impacts, the analysis of the project development outcome includes: (a) environment, (b) social aspects (c) health and safety issues.**⁷
- 3.11 The analysis takes into account all appropriate environmental and social measures, the quality of the environmental management system and the monitoring of all ESHS activities. When the IDB operates through a financial intermediary or a financial operation, it requires the implementation of a set of rules that has to be followed by the Financial Intermediaries (FI) in order to select and finance the investments.

⁷ The Good Practice Standards defines “environment” not only as the physical environment surrounding the project but it also includes the social, cultural, health and safety impacts (Std. #35).

Table 6: Rating Criteria for Project ESHS Impact

Rating	Benchmarks	
	For Non Financial Market Operations	For Financial Market Operations
Highly Satisfactory	i) All appropriate environmental and social measures are taken into account and all environmental covenants are implemented. ii) The project: (a) fully complies with all ESHS requirements in the loan agreement and with IDB policies and local requirements; (b) has not produced any irreversible environmental problem; (c) directly or indirectly, reinforces positive environmental and social impacts and promotes “good practices”; (d) has demonstration effect or replicability in the country or the region and; (iii) The sponsor has developed additional services (infrastructure or community) raising industry standards.	(i) The FI has developed and applied an Environmental Management System (EMS) that was approved by the Bank and there is clear evidence that all subprojects comply with all country and Bank standards; (ii) None of the subprojects have produced any irreversible environmental problem; (iii) The intermediary produced demonstration effects in the sector to adopt "good practices".
Satisfactory	(i) All relevant environmental and social measures are taken into account, all relevant environmental covenants are implemented and there are no significant outstanding issues regarding ESHS; (ii) The project: (a) did not produce any irreversible environmental problem; (b) has presented appropriate mitigation plans and; (iii) The borrowers comply with IDB transparency requirements related to information disclosure and public consultation.	(i) The FI has developed and applied an EMS that was approved by the Bank and there is evidence that the subprojects comply with all country and Bank standards; (ii) None of the subprojects have produced any irreversible environmental problems.
Unsatisfactory	(i) There is no material compliance with the ESHS requirements in the loan agreement and with IDB policies, and local requirements; (ii) There are significant unmitigated environmental or social negative impacts but action is being taken to correct deficiencies; (iii) The project did not adopt all transparency requirements.	The intermediary has developed and applies an EMS that was approved by the Bank but there is no evidence that the subprojects comply with the country and Bank standards.
Highly Unsatisfactory	(i) The Project is not in material compliance with the ESHS requirements in the loan agreement and with IDB policies, or local requirements; (ii) There are a significant present unmitigated environmental or social negative impacts or environmental risks; (iii) Mitigation prospects are uncertain or unlikely; (iv) There are major outstanding issues that need to be addressed in the short term and possible permanently environmental problems.	(i) The FI has developed an EMS that was approved by the Bank but it was not applied during the life of the loan; (ii) There is no evidence that the subprojects comply with the country and Bank standards; (iii) At least one subproject produced some irreversible environmental problems.

6. Expected Outcomes and Output Analysis of the Projects

3.12 **At the level of the Expected Outcomes and Output, the analysis of the project development outcome measures the achievement of its Development**

Objectives (DOs).⁸ This section is only applicable for the projects that have Logical Framework and PPMR.

- 3.13 The project is rated against a matrix of Objectives - Goals and Purposes - and Componentes with their indicators - baselines, targets and results - by comparing actual project achievements with expected results and briefly explaining the reasons for gaps, if any, between the expected and actual results in terms of outcomes, outputs and project components.

Table 7: Rating Criteria for Expected Outcome and Output Achievement

Rating	Benchmarks
Highly Satisfactory	The project: (i) achieved all the expected outcomes (measured with indicators that have baselines, targets and end data); (ii) is likely to sustain the flow of benefits initiated by the project for the target population; and (iii) completed all project outputs (components) without implementation delays.
Satisfactory	The project: (i) achieved most of the expected outcomes and output (measured with indicators that have baselines, targets and end data); (ii) is likely to sustain most of the benefits initiated by the project for the target population; (iii) substantially completed all main project outputs with some delays in the implementation, but without jeopardizing any of the expected project outcomes.
Unsatisfactory	The project: (i) has achieved some of the expected outcomes (measured with indicators that have baselines, targets and end data); (ii) it is no likely to sustain the flow of benefits initiated by the project for the target population; and (iii) completed most project outputs with some delays in the implementation jeopardizing some expected project outcomes.
Highly Unsatisfactory	The project: (i) did not achieve the expected outcome (measured with indicators that have baselines, targets and end data); (ii) did not complete project outputs and the delays in the implementation have jeopardized the achievement of projects outcomes.

7. Overall Project Development Outcome Indicator

- 3.14 The results of the rating of the five standards indicators (Tables 2 to 7) are gathered together to create an overall project development outcome indicator (Table 8).

Table 8: Overall Project Development Outcome Indicator

Rating	Benchmarks
Highly Satisfactory	A project with overwhelming positive development impacts, and virtually no flaws. Indicates the type of project PRI should use to illustrate the contribution of private sector development.
Satisfactory	A project which may have some shortcomings, but with a clear preponderance of positive aspects. To justify the IDB support to the private sector.
Unsatisfactory	A project with negative aspects, clearly outweighing positive aspects.
Highly Unsatisfactory	A project with only negative development aspects.

⁸ The DOs is proposed in the Project Loan Document sent to the Board for approval. The DOs consist of outcomes and outputs indicators defined in the Logical framework and reported in PPMRs.

B. Project Investment Profitability for IDB

3.15 **The rating for Project Investment Profitability for IDB is based on its Gross Profit Contribution to IDB (std#36). The rating could be applied following Best and/or Good Practice Standards.⁹** In the Best Practice, the rating is based on the reestimated Present Value of Operating Cash Flows (Table 9). In the Good Practice, the rating is based on a comparison between the project achieved performance and a minimal satisfactory expected performance at the time of the project approval (Table 10).

1. Best Practice: Project Gross Profit Contribution for IDB

3.16 **The rating for “Best Practice” Project Gross Profit Contribution to IDB is based on the reestimated Present Value of Operating Cash Flows.** This performance rating reflects the extent to which the actual and expected Net Contribution over the life of the project is sufficient to cover its full transaction cost and to contribute to the IDB’s net profit. The operating cash flow only takes into account the Commitment Fees assumed by the IDB to cover the liquidity position by capital disbursements and collections including interest payments¹⁰.

3.17 To reestimate the Present Value of Operating Cash Flows, the value of the loan is obtained by discounting the cash flows produced by the operation to the date when the first disbursement was made. Because the model assumes that these are the Operating cash flows for the Bank, the discount rate used in this computation should be the Weighted Average Cost of Capital for the Bank (WACC). The WACC to be used during the reestimation has to be the same as the one used during the disbursement period but for simplification purposes and to make comparisons possible, the WACC of the approval year should be used.

Table 9: Best Practice: Project Gross Profit Contribution for IDB

Rating	Benchmarks
Highly Satisfactory	NPV of Loan Cash flow, discounted at WACC of the Bank is, 20% higher than originally estimated at Board Approval
Satisfactory	NPV of Loan Cash flow, discounted at WACC of the Bank is 90% or higher of original NPV estimated at Board Approval
Unsatisfactory	NPV of Loan Cash flow, discounted at WACC of the Bank is less than 89% of NPV original estimated at Board Approval
Highly Unsatisfactory	NPV of Loan Cash flow, discounted at WACC of the Bank is less than 20% of NPV original estimated at Board Approval

⁹ Good practice is accepted for compliance.

¹⁰ The operating cash flow does not take into account the fees collected by the Bank that are intended to cover the administrative expenses.

2. Good practice: Project Gross Profit Contribution for IDB

- 3.18 **The rating for “Good Practice” Project Gross Profit Contribution for IDB Investment profitability is based on the comparison between the project accomplished performance and the minimal satisfactory expected performance at the time of the project approval.**

Table 10: Project Gross Profit Contribution for IDB (Good Practice)

Rating	Benchmarks
Highly Satisfactory	(i) The IDB/PRI Loan is and has been performing very well; (ii) There is clear indication that the loan is expected to be paid as scheduled.
Satisfactory	(i) The IDB/PRI loan expected to be paid as scheduled; or (ii) the loan is prepaid and the IDB/PRI has received at least 65% of the interest (net of prepayment penalties received) expected over the original life of the loan; or (iii) loan has been rescheduled and is expected to be paid as rescheduled with no loss of originally expected income; or (iv) All fees are expected to be received, and IDB/PRI guarantee is not called, or called but expected to be fully repaid in accordance with the terms of the guarantee agreement. There is indication that debt service payments to PRI will be on time.
Rating	Benchmarks
Unsatisfactory	(i) The IDB/PRI loan is prepaid and PRI has received less than 65% of the originally expected interest income (net of prepayment penalties received); or (ii) loan has been rescheduled, or guarantee is called and, in either case, PRI expects to receive sufficient interest income to recover all of its funding cost but less than the full dollar margin originally expected. If all payments to PRI are on time, but there is doubt whether payments can remain on time in future.
Highly Unsatisfactory	(i) The IDB/PRI loan is in non-accrual status; or (ii) The IDB/PRI has established specific loss reserves; or (iii) loan has been rescheduled but PRI does not expect to recover 100% of its loan funding cost; or (iv) The IDB/PRI is expecting a loss on its guarantee or risk-management facility or (v) The project has been partially "written off".

C. IDB Operational Effectiveness

- 3.19 For the IDB/PRI Operational Effectiveness dimension, the rating is constructed by three standard indicators: (1) Screening Appraisal and Structuring work (std. #38). (2) Monitoring and Supervision Quality (std. #38). (3) Role, Contribution and IDB Additionality (std. #39).

1. Screening Appraisal and Structuring Work

- 3.20 **The Screening Appraisal and Structuring Work Standard refers to how well the PRI performed in appraising and structuring the operation.** It assesses whether there were material risks identified and the PRI has mitigated them adequately, whether the preparation time was considered reasonable, whether the market, sponsor, and company performance was adequately appraised and clients are satisfied with PRI work in this area.

Table 11: Screening, Appraisal and Structuring Work

Rating	Benchmarks
Highly Satisfactory	IDB/PRI front-end work could serve as a best-practice example. Issues to take into account: (i) Risk mitigations mechanisms were successfully enforced. (ii) All events affecting the project were considered during screening. (iii) Preparation time was below bank average. (iv) Clients were very satisfied with the quality and efficiency (time and cost) of the Bank screening, appraisal and structuring work.
Satisfactory	IDB/PRI front-end work follows good practice standards Issues to take into account: (i) Risk mitigation mechanisms were successfully enforced. (ii) Some delays occurred during the preparation process. (iii) Clients were satisfied with the quality and/or efficiency (time and cost) of the Bank screening, appraisal and structuring work.
Unsatisfactory	There was a material shortfall in at least two important areas. Issues to take into account: (i) Not all Bank risk mitigation mechanisms were successfully enforced, but the credit performance of the loan or guarantee was not affected. (ii) Some delays occurred during the preparation process; and or (iii) Clients were not satisfied with the quality and/or efficiency of the Bank screening, appraisal and structuring work.
Highly Unsatisfactory	There were material shortfalls in several areas or a glaring mistake or omission bordering on negligence. Issues to take into account: (i) Risk mitigations mechanisms were not available or could not be enforced affecting credit performance of the operation. (ii) Major delays occurred during project preparation. (iii) Clients were not satisfied with the quality and/or efficiency of the Bank screening, appraisal and structuring work.

2. Monitoring and Supervision Quality

3.21 **Monitoring and Supervision Quality Standard is measured by assessing:** how well the PRI did in addressing company reporting and monitoring results, how well it detected emerging problems and responded in a timely manner with effective intervention. Therefore, Monitoring and Supervision - including environmental supervision - should be rated as follows:

Table 12: Monitoring and Supervision Quality

Rating	Benchmarks
Highly Satisfactory	IDB/PRI has always kept itself promptly and fully informed about the project and company performance (credit status of the projects) and used this knowledge proactively to improve the project's development outcome and/or IDB/PRI investment outcome. Other issues to take into account: (i) The project has always been in compliance with its reporting covenants. (ii) Clients are satisfied with the Bank monitoring and supervision activities.
Satisfactory	If IDB/PRI has kept itself sufficiently informed to react in a timely manner to any material change in the project and company performance (credit status of the project) and took timely action where needed. Other issues to take into account: (i) the project has been in non-compliance of its reporting covenants for less than 6 months. (ii) Clients are satisfied with the Bank supervision and monitoring and supervision activities.
Unsatisfactory	IDB/PRI's supervision was insufficient to monitor the project and company performance (credit status of the projects) and/or did not take timely and appropriate action Other issues to take into account: (i) the project has been in non-compliance of its reporting covenants for more than 6 months. (ii) Clients are not totally satisfied with the Bank monitoring and supervision activities.
Highly Unsatisfactory	IDB/PRI missed material developments, and/or did not use information to intervene timely and appropriately. Other issues to take into account: (i) the project has been in non-compliance of its reporting covenants for more than 12 months. (ii) Clients are not satisfied with the Bank monitoring and supervision activities.

3. Role, Contribution and Additionality of the IDB

3.22 **The Role Contribution and Additionality of the IDB Standard refers to the elements¹¹ of Bank additionality on its operations.** This standard also refers to the coherence of the operation with the country or sector strategy, and the level of institutional coordination among the different Departments within the Bank.

Table 13: Role, Contribution and Additionality of the IDB

Rating	Benchmarks
Highly Satisfactory	There is concrete evidence of Bank Additionality in at least three of the following areas: Corporate Governance, Financial, ESHS, and Regulatory. Other issues: (i) The project was part of the Bank strategy with the country and the sector strategy.
Satisfactory	There is concrete evidence of Bank Additionality in at least two of the following areas: Corporate Governance, Financial, ESHS, and Regulatory. Other issues: (i) The project was part of the Bank strategy with the country.
Unsatisfactory	There is concrete evidence of Bank Additionality in at least one of the following areas: Corporate Governance, Financial, ESHS, and Regulatory. Other issues: (i) The project was not part of the Bank strategy with the country.
Rating	Benchmarks
Highly Unsatisfactory	There is no evidence of Bank Additionality in any of the following areas: Corporate Governance, Financial, ESHS, and Regulatory. Other issues: (i) The project was against the rationale of the Bank strategy with the country.

4. Overall IDB Operational Effectiveness.

3.23 The Overall IDB Operational Effectiveness Indicator gathered the three specific standards indicators above (Tables 11,12 and 13), as shown in the Table 14.

Table 14: Overall IDB Operational Effectiveness Indicator

Rating	Benchmarks
Highly Satisfactory	IDB/PRI's performance was exemplary. Screening, Appraisal, Monitoring and Additionality are highly Satisfactory.
Satisfactory	IDB/PRI's performance was materially up to a high professional standard. Screening, Appraisal, Monitoring and Additionality are Satisfactory.
Unsatisfactory	There was a material shortfall in at least one of the three dimensions.
Highly Unsatisfactory	There were shortfalls in several areas or an egregious shortfall in one area which led (or could have led, under less favorable circumstances) to a less-than-satisfactory development or investment outcome.

¹¹ These elements are: financial, regulatory, environmental, social, health and safety and corporate governance additionality.

IV. BACKGROUND

1. The MDB Background

- 4.1 **In 1996, a Development Committee Task Force received a mandate from the different presidents of the MDBs to harmonize evaluation methodologies, performance indicators and criteria of the MDBs.** The development of performance indicators was considered essential for the public accountability of the MDBs and their ability to justify the use of public resources to shareholder governments, parliaments, and the public. The MDB Presidents called for "further intensification of collaboration among MDB evaluation units in harmonizing evaluation standards....".¹² Consequently, a common methodology for evaluating the MDB portfolios was developed in an effort to harmonize performance indicators and evaluation criteria, while still taking into account the differing circumstances of each institution.
- 4.2 **In February 2001, in response to this mandate, the Working Group on Private Sector Evaluation (WGPSE) agreed to a set of Good-Practice Standards for evaluation of private sector Investment Operations (the GPS).**¹³ As part of these standards, the members of the WGPSE agreed that they would "arrange for independent periodic crosscutting assessments of the extent to which these...good-practice standards are being applied in each member agency's evaluations and annual reporting, and report the findings to the MDB Presidents."¹⁴
- 4.3 **In 2002, the WGPSE made an assessment that the application of the GPS was at an early stage.** The members' policies and practices were consistent with only 39% of the standards, ranging from 8% to 93% for individual members. The standard shortfalls in the rating could be explained by three factors. First, some members believed they had insufficient leverage to mobilize the management and operational staff cooperation and budgetary allocations needed for adoption and application of the standards. Second, some had begun to address the issue of adopting the standards only recently. Third, a few members disagreed with some previously agreed upon standards or considered them to be inappropriate to their own institution's circumstances.¹⁵

¹² Development Committee, "Report from the Multilateral Development Banks on Implementation of the Major Recommendations of the MDB Task Force Report," March 26, 1998, p. 4.

¹³ MDB-ECG, WGPSE, "MDB-ECG Good-Practice Standards for Evaluation of Private Sector Investment Operations" April 23, 2001.

¹⁴ Op. cit., p. 17. The members of the WGPSE comprise AfDB, AsDB, EBRD, EIB, IFC, IDB, IIC and MIGA. The members of the ECG comprise AfDB, AsDB, EBRD, EIB, IDB Group, IMF, and WBG. The GPS are intended to apply to those investment or guarantee operations of the ECG members in developing and transition countries where there is no sovereign recourse for the MDB. Thus, the GPS apply to all the operations of IFC, IIC and MIGA, the bulk of the operations of EBRD, and smaller shares of the operations of the remaining members.

¹⁵ Walter I. Cohn & Associates, LLC, "Benchmarking of ECG Members' Evaluation Practices for Their Private Sector Investment Operations Against Their Agreed Good-Practice Standards", October 18, 2002.

- 4.4 **In May 2003, the WGPSE agreed to a set of revised standards.**¹⁶ The revised GPS reduced the number of standards from 93 to 72, by dropping some and combining others. In addition, the revised GPS created a distinction between harmonization standards and other standards¹⁷. After characterizing 22 standards as not required for comparability, 50 harmonization standards remained as a core. The revised GPS also distinguished between “**good practice standards**” and “**best practice standards**”¹⁸. The revised edition of the GPS contains 50 good practice harmonization standards, 22 other good practice standards, 11 best practice harmonization standards, and 11 other best practice standards. (See Annex I)
- 4.5 **In 2004, at the request of the WGPSE, a second assessment of the member institutions' application of the revised standards concluded that virtually all have made significant progress towards harmonization.** On average, their practices were consistent with 59% of the GPS. Weighted by the relative volume of commitments made by each institution during 1999-2003, the overall score is 77%, showing that initiatives undertaken by most of the MDBs over the past two years have led to the progress reflected in the statistics.¹⁹

2. The IDB Background

- 4.6 **In 2002, the IDB only met the requirement of 8% of the good practice harmonization standards.** The standards met were all related to the independence evaluation unit (GPS 1-7), and they are broadly similar to the ones applicable to public sector evaluation.
- 4.7 **In 2004, the PRI started to gradually adopt good practices regarding project monitoring and evaluation activities,** beginning with Logical Framework for all PRI projects. In the same year, PRI also started to prepare annual PPMR and, in 2005, PRI has adopted ECG-GPS for its portfolio, following OVE recommendation²⁰.
- 4.8 In March 2005, OVE received a Concept Paper from PRI about the XPSR that initiated the process to develop the instruments and guidelines to apply ECG standards. In addition, PRI included the developing instruments and guidelines to comply with ECG standards in the PRI Action Plan for 2005.

¹⁶ MDB-ECG, WGPSE, "MDB-ECG Good-Practice Standards for Evaluation of Private Sector Investment Operations," Second Edition, May 16, 2003.

¹⁷ Harmonization Standards are the minimum standards necessary to permit comparability of reported operational results among the MDBs. The rest of standards are considered “Other standards” because they are not essential for comparability of reported results but nonetheless desirable for enhanced evaluation relevance, accountability and learning within each institution.

¹⁸ The “good practice standards” are practices going beyond good practice standards that are desirable but not essential, while the “best practice standards” are the key principles and practices that any development institution that finances the private sector should follow if it is to have a satisfactory evaluation system.

¹⁹ Weights derived from data provided by IFC: IFC 41%, EBRD 30%, MIGA 18%, IDB 5%, IIC 2%, AfDB 2% and AsDB 2%.

²⁰ RE-303 “Evaluation of the Bank’s Direct Private Sector Lending Program 1995-2003”, Annex IV.

XPSR Structure

I. Staff Information

II. Statistical Information

III. Project's Development Outcome (Std # 26)

Project Contribution to Company Business Success

Project Contribution to Private Sector Development

Project Economic Viability

Project Contribution to the Country Living Standards

Project ESHS Impacts

Project Expected Outcomes and Output Achievement

IV. Project Investment Profitability for IDB (Std # 26)

Project Gross Profit Contribution to IDB

V. Operational Effectiveness (Std # 26)

Screening, Appraisal and Structuring Work

Monitoring and Supervision Quality

Role, Contribution and Additionality of the IDB

VI. Lessons Identified

VII. Internal Peer Review

Expanded Project Supervision Report (XPSR) for Operations with Private Sector - IDB.

1 Evaluation Date (MM/DD/AA):

I. Staff Information

2 Responsible for XSAR Consolidation

3 Member of Origination Team

4 Current/Last Investment Officer

5 Member of Project Supervision Unit

6 Member of Credit Risk Unit

7 Member of Environmental and Social Unit

8 Other participant

9 Other participant

10 Other participant

11 Other participant

12 Assistant

II. Statistical Information

11 Project Name:

12 Project #:

14 Borrower / Beneficiary:

13 Loan #:

15 Country:

28 Project Description

29 Rationale of the Intervention

16 Sector <input type="text" value="Please, Select"/>	17 Sub Sector <input type="text" value="Please, Select"/>
18 Operation Type <input type="text" value="Please, Select"/>	19 Project Type <input type="text" value="Please, Select"/>
20 Contract Type <input type="text" value="Please, Select"/>	21 Financial Status <input type="text" value="Please, Select"/>
22 Completion Status <input type="text" value="Please, Select"/>	23 Dist Status <input type="text" value="Please, Select"/>
24 Approval date <input type="text"/>	26 1st Dist Date <input type="text"/>
25 Closing Date <input type="text"/>	27 Project Cost <input type="text"/>

Financial Structure of the Project

5 Shareholder Equity <input type="text"/>	6 Bond Issue <input type="text"/>
7 Local Bank Loans <input type="text"/>	8 IDB Financing (A+B Lending) <input type="text"/>
9 Government Investment <input type="text"/>	8 Other Multilateral Financing <input type="text"/>
9 Other <input type="text"/>	
Total Project Cost <u> </u> \$0	

IDB Support Details

<u>A-Loan</u>	<u>B-Loan</u>
10 Amount (\$ '000) <input type="text"/>	14 Amount (\$ '000) <input type="text"/>
11 Tenor (Months) <input type="text"/>	15 Tenor (Months) <input type="text"/>
12 Spread (basic points) <input type="text"/>	16 Spread (basic points) <input type="text"/>
13 Grace Period (months) <input type="text"/>	17 Grace Period (months) <input type="text"/>

<u>IDB Guarantee</u>	<u>IDB Co Guarantee</u>
71 Original Nominal Exposure (\$ '000) <input type="text"/>	75 Original Nominal Exposure (\$ '000) <input type="text"/>
73 Guarantee Price (Basic Points) <input type="text"/>	76 Guarantee Price (Basic Points) <input type="text"/>
74 Guarantee Coverage (All that apply)	

- | | | |
|---|--|--|
| a <input type="checkbox"/> Breach of Contract | e <input type="checkbox"/> Expropriation of Physical Assets | l <input type="checkbox"/> Partial Credit (partially wrapped) |
| b <input type="checkbox"/> Currency Convertibility | f <input type="checkbox"/> Payments for Early Termination of Concessions | j <input type="checkbox"/> Liquidity (Put Options or Take Out Financing) |
| c <input type="checkbox"/> Currency Transferability | g <input type="checkbox"/> Sovereign Contractual Obligations | k <input type="checkbox"/> Rolling of Loans (Refinancing) |
| d <input type="checkbox"/> Expropriation of Funds | h <input type="checkbox"/> Partial Credit (fully wrapped) | <input type="checkbox"/> Other |

Borrower / Issuer / Project Company

36 Company Name

37 Address

38 Country

39 Phone a.Ctry Cod b.Area Cod c. Local Nr 40 Website

41 CEO / Gral Manager

42 Email CEO

43 Other Contact

44 Email Other Contact

III. Project Development Outcome

Highly Satisfactory Satisfactory Unsatisfactory Highly Unsatisfactory

III.A Project Contribution to Company Business Success (Std # 31)

Highly Satisfactory Satisfactory Unsatisfactory Highly Unsatisfactory

Complete this box after answering all questions of the section. Before completing the box, delete this message.

Issues to be considered to complete this box:

- a) Briefly explain the financial and non-financial performance in terms of the project's FRR, portfolio profitability, income generation, and cash flow, volume of sales, operative performance, etc; describing in detail the causes that explain the difference between the projected performance and the observed performance, using the data shown and additional information.
- b) Explain the reasons for which the situation of the companies would have been better, the same or worse if the project had not been undertaken.
- c) Comment on the expected situation in the company without the project.

Comparison of Expected and Actual Results(Std #31)

	<u>Board Reports Projections</u>					<u>Actual-to-Date</u>				
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 1	Year 2	Year 3	Year 4	Year 5
Sector Specific Indicators										
Sales Volume (specify Unit)										
Capacity Utilization										
Others (specify)										
Others (specify)										
From Income Statement										
Sales Revenues										
Operating Expenses										
EBITDA										
Amortizations and Depreciations										
Financial Expenses										
EBT										
Net Income										
From Balance Sheet										
Cash										
Current Assets										
Total Assets										
Current Liabilities										
Total LT Debt										
Total Liabilities										
Equity										
Average Exchange Rate (LC/US\$)										
From Cash Flow Statement										
Cash from Operating Activities										
Cash from Financing Activities										
Cash from Investing Activities										
Total Cash Used/Generated										
Key Financial Ratios										
Current Ratio (C. Assets / C. Liabilities)										
LT Debt / Equity										
LT Debt Service Coverage Ratio										
Other										

77 For Capital Expenditure Projects, what is the financial return rate (FRR) projected for the project during its design and the actual one?

FRR Board Report (%)

FRR XPSR Update (%)

77 For Financial Markets Projects, what is the Financial Intermediary portfolio return and what is the return of the projects financed in this operation?

FI Portfolio Return (%)

Return on Portfolio Financed in the Project (%)

Are the achieved results in terms of profitability and fulfillment of the corporate objectives sustainable in the medium-term (3 years)? (Std # 30)

Yes No

Yes No

What would be the current situation of the company in terms of profitability and fulfillment of the corporate objectives of the sponsors in the case of Project Finance, if the project had not taken place? (Std # 29)

The same Better Worst

III.B Project Contribution to Private Sector Development (Std # 32)

Highly Satisfactory Satisfactory Unsatisfactory Highly Unsatisfactory

Complete this box after answering all questions of the section. Before completing the box, delete this message.

Issues to be considered to complete this box:

- a) Explain the strategy adopted by the Bank to support private sector development in the sector.
- b) Explain the sustainability of the model existing in the country, the existing restrictions related to institutional, regulatory and legal issues and the improvements introduced by the project when applicable.
- c) Provide additional information in case: (i) there has been an increase in the competitiveness in the sector, (ii) a break up of monopolies or oligopolies or (iii) the entry of new actors (B-Lenders, Sponsors) to the country, sector or region.
- d) Explain the perception of different stakeholders, based on public information, regarding the project and whether they could support or jeopardize private sector development in the sector in the future.
- e) Provide information on investments undertaken in the sector after this project's intervention.
- f) Comment on the expected situation in the country, sector or region without the project.

48 Did the project support either the consolidation or the creation of a "sustainable model" in which follow-up investments can be made in the sector without credit support from a Multilateral or Bilateral Organization?

YES NO Not Applicable

48 Prior to the execution of this project, did private participation in the sub Sector exist?

YES NO Not Applicable

47 Approximately how many operations of similar characteristics (magnitude, financial amount) have been carried out in the sub sector of intervention in the country prior to this operation?

Nr of Operations

48 After this operation was carried out, were operations with private actors undertaken in the same sub sector?

YES NO

48 Did the project introduce competition in a sector previously monopolized or oligopolized?

YES NO, It could demonopolize the sector No, competition already existed

48 Did the project help to test the legal, institutional and regulatory framework, in order to provide "comfort to follow up investments"?

YES NO

48 Did the project introduce improvements in the legal, institutional or regulatory framework tending to favor private investment in the sector?

YES NO

48 What has been the impact of this project on the business climate of the country?

Positive Negative Neutral

48 Is the operation part of a program of reforms or privatizations that the country is carrying out in the sector?

YES NO

49 In case of an affirmative answer to the question above, how advanced is the program: incipient, intermediate, advanced?

Incipient Intermediate Advanced Not Applicable

80 Based on public information, what was and what is the position of the following stakeholders regarding its undertaking

Opposition Existed?

Opposition Still Exists?

NGOs YES NO Not Available

YES NO Not Available

Local Governments YES NO Not Available

YES NO Not Available

General Public YES NO Not Available

YES NO Not Available

Labor Unions YES NO Not Available

YES NO Not Available

Other YES NO Not Available

YES NO Not Available

51 If applicable, indicate the experience of the 5 main sponsors and arrangers in the country or sector.

Sponsor Names **% Partic.** **Previous Experience**

Sponsor 1		Please, Select	▼
-----------	--	----------------	---

Sponsor 2		Please, Select	▼
Sponsor 3		Please, Select	▼
Sponsor 4		Please, Select	▼
Sponsor 5		Please, Select	▼

52 Co-Financers / Co-Guarantors Name	% Partic.	Previous Experience
Sponsor 1		Please, Select
Sponsor 2		Please, Select
Sponsor 3		Please, Select
Sponsor 4		Please, Select
Sponsor 5		Please, Select

III.C Project Economic Viability (Std # 33)

Highly Satisfactory
 Satisfactory
 Unsatisfactory
 Highly Unsatisfactory

Complete this box after answering all questions of the section. Before completing the box, delete this message.

Issues to be considered to complete this box:

- Comment on the characteristics of the ERR study, particularly on the factors used to estimate the flows of benefits and costs.
- Comment on the realization of such flows based on the reestimation of the ERR, explaining the origin and causes of the differences.
- Indicate the criteria that are taken into account to evaluate the Economic Viability of the operations, for operations with Financial Intermediaries,

For Non-Financial Market Operations

Economic Rate of Return (Std # 30)

83 Was any estimation of the ERR done during project design?

YES
 NO

84 In case of an affirmative answer,

ERR (Board) % Link to Original Study of ERR Analysis

85 Reestimation of ERR

Estimated ERR % Link to ERR Reestimation Study

For Financial Market Operations

Has the project helped to improve the efficiency of the capital markets?

YES
 NO

Are the subprojects of the financial intermediary more profitable than the portfolio?

YES
 NO

III.D Project Contribution to the Country Living Standards (Std # 34)

Highly Satisfactory
 Satisfactory
 Unsatisfactory
 Highly Unsatisfactory

Complete this box after answering all questions of the section. Before completing the box, delete this message.

Issues to be considered to complete this box:

- Describe the impact of the project on the living standards of main stakeholders other than its owners or financiers. Some stakeholders may be consumers, employees, local residents, competitors, suppliers and the government.
- Take into account possible issues as improved availability of adequate infrastructure services, improving coverage and quality of service and affordability.
- Indicate other impacts such as employment generation/destruction, health and safety issues, housing and community services, project contribution to government finances resulting from reductions in subsidies or other payments and other benefits to the economy.
- In case that $ERR < FRR$, indicate how the project is capturing those benefits and which is the affected population.
- Comment on the expected situation if the project had not taken place.

ERR Reestimation

Estimated ERR %

77 For Capital Investment Projects, what is the financial return rate (FRR) projected for the project during its design and at this moment?

FRR XPSR Update (%) **ERR - FRR**

77 For Capital Market Projects, what is the actual return or the one expected at this moment and what was the return estimated at the time of the operation's approval?

Portfolio Actual or Expected Return at XPSR

Has the project produced any relevant impact on the Quality of Life of the population which has not been achieved in the ERR estimations?

YES NO

III.E Project ESHS Impacts (Std # 35 and Std # 30)

Highly Satisfactory Satisfactory Unsatisfactory Highly Unsatisfactory

Complete this box after answering all questions of the section. Before completing the box, delete this message.

Issues to be considered to complete this box:

- a) Describe in detail, when applicable, the issues in which there has been a lack of compliance with ESHS standards or Bank Policies.
- b) If cases of lack of compliance have existed, indicate when such problems took place, what the solution was, what the role of the Bank was and how these problems affect the environmental sustainability of the project.
- c) Indicate if the operation produced any "demonstration effects" among stakeholders in the host country or if it helped to raise awareness of ESHS issues in the sector or country.
- d) Indicate if the project helped to improve the regulatory framework and to enforce the law in the ESHS in the sector.

Was the project at any time in non-compliance with ESHS standards and Bank policy related to these aspects?

YES NO

In case of an affirmative answer, indicate which issues were or are the project in non-compliance with, how the problem was solved and whether it affects the sustainability regarding ESHS issues.

Non-Compliance with:	Has been in Non Compliance?	Is actually in Non Compliance?	Is the Non Compliance Permanently?
Environmental Issues	<input type="radio"/> YES <input type="radio"/> NO <input type="radio"/> Partially	<input checked="" type="radio"/> YES <input type="radio"/> NO	<input type="radio"/> YES <input type="radio"/> NO <input checked="" type="radio"/> Not Applicable
Resettlement Issues	<input type="radio"/> YES <input type="radio"/> NO <input type="radio"/> Partially	<input checked="" type="radio"/> YES <input type="radio"/> NO	<input type="radio"/> YES <input type="radio"/> NO <input checked="" type="radio"/> Not Applicable
Other Social Issues	<input type="radio"/> YES <input type="radio"/> NO <input type="radio"/> Partially	<input checked="" type="radio"/> YES <input type="radio"/> NO	<input type="radio"/> YES <input type="radio"/> NO <input checked="" type="radio"/> Not Applicable
Health Issues	<input type="radio"/> YES <input type="radio"/> NO <input type="radio"/> Partially	<input type="radio"/> YES <input type="radio"/> NO	<input checked="" type="radio"/> YES <input type="radio"/> NO <input type="radio"/> Not Applicable
Safety Issues	<input type="radio"/> YES <input type="radio"/> NO <input type="radio"/> Partially	<input type="radio"/> YES <input type="radio"/> NO	<input checked="" type="radio"/> YES <input type="radio"/> NO <input type="radio"/> Not Applicable
Other Issues	<input type="radio"/> YES <input type="radio"/> NO <input type="radio"/> Partially	<input type="radio"/> YES <input type="radio"/> NO	<input type="radio"/> YES <input type="radio"/> NO <input checked="" type="radio"/> Not Applicable

Did the project produce any irreversibly environmental problem?

YES NO

Is the project environmentally sustainable in the long run?

YES NO

Did the project help to develop additional infrastructure or services that raised industry standards (community centers, costumer services, etc.)?

YES NO

Did the project execution persuade sponsors and relate companies to adopt better ESHS standards and promote "good practices"?

YES NO

Did the project help to increase awareness among stakeholders of ESHS issues?

YES NO

Did the project help to improve the regulatory environment for ESHS Issues for the sector and to enforce the law?

YES NO

Is the information related to the ESHS impacts of the project easily available for consultation and correctly disseminated among stakeholders?

YES NO

										#DIV/0!
										#DIV/0!
										#DIV/0!
										#DIV/0!

According to the indicators and other available data, has this Project Outcome (Purpose) been achieved?

Yes No

In case of a positive answer, are the flows of benefits initiated by the projects likely to be sustained?

Yes No

Project Outcome (Purpose) 3:

[Redacted]

Proposed Indicators	Unit	Base Line		Milestone		Target		End Data		% Achieve.
		#	Date	#	Date	#	Date	#	Date	
										#DIV/0!
										#DIV/0!
										#DIV/0!
										#DIV/0!
										#DIV/0!
										#DIV/0!
										#DIV/0!

According to the indicators and other available data, has this Project Outcome (Purpose) been achieved?

Yes No

In case of a positive answer, are the flows of benefits initiated by the projects likely to be sustained?

Yes No

Project Outcome (Purpose) 4:

[Redacted]

Proposed Indicators	Unit	Base Line		Milestone		Target		End Data		% Achieve.
		#	Date	#	Date	#	Date	#	Date	
										#DIV/0!
										#DIV/0!
										#DIV/0!
										#DIV/0!
										#DIV/0!
										#DIV/0!
										#DIV/0!
										#DIV/0!

According to the indicators and other available data, has this Project Outcome (Purpose) been achieved?

Yes No

In case of a positive answer, are the flows of benefits initiated by the projects likely to be sustained?

Yes No

Project Outcome (Purpose) 5:

[Redacted]

Proposed Indicators	Unit	Base Line		Milestone		Target		End Data		% Achieve.
		#	Date	#	Date	#	Date	#	Date	
										#DIV/0!
										#DIV/0!
										#DIV/0!
										#DIV/0!
										#DIV/0!
										#DIV/0!
										#DIV/0!
										#DIV/0!

According to the indicators and other available data, has this Project Outcome (Purpose) been achieved?

Yes No

In case of a positive answer, are the flows of benefits initiated by the projects likely to be sustained?

Yes No

88 **Project Outputs**

Component 1

#	Outputs	Unit	Expected Completion and Delivery Date		Actual Completion and Delivery Date		% Completion	
			#	Date	#	Date	#	Delay (Anticip.)
1							#DIV/0!	-
2							#DIV/0!	-
3							#DIV/0!	-
4							#DIV/0!	-

5							#DIV/0!	-
6							#DIV/0!	-
7							#DIV/0!	-
8							#DIV/0!	-
9							#DIV/0!	-
10							#DIV/0!	-
Total Achievement							#DIV/0!	-

Component 2

#	Outputs	Unit	Expected Completion and Delivery Date		Actual Completion and Delivery Date		% Completion	
			#	Date	#	Date	#	Date
1							#DIV/0!	-
2							#DIV/0!	-
3							#DIV/0!	-
4							#DIV/0!	-
5							#DIV/0!	-
6							#DIV/0!	-
7							#DIV/0!	-
8							#DIV/0!	-
9							#DIV/0!	-
10							#DIV/0!	-
Total Achievement							#DIV/0!	-

Component 3

#	Outputs	Unit	Expected Completion and Delivery Date		Actual Completion and Delivery Date		% Completion	
			#	Date	#	Date	#	Date
1							#DIV/0!	-
2							#DIV/0!	-
3							#DIV/0!	-
4							#DIV/0!	-
5							#DIV/0!	-
6							#DIV/0!	-
7							#DIV/0!	-
8							#DIV/0!	-
9							#DIV/0!	-
10							#DIV/0!	-
Total Achievement							#DIV/0!	-

Component 4

#	Outputs	Unit	Expected Completion and Delivery Date		Actual Completion and Delivery Date		% Completion	
			#	Date	#	Date	#	Date
1							#DIV/0!	-
2							#DIV/0!	-
3							#DIV/0!	-
4							#DIV/0!	-
5							#DIV/0!	-
6							#DIV/0!	-
7							#DIV/0!	-
8							#DIV/0!	-
9							#DIV/0!	-
10							#DIV/0!	-
Total Achievement							#DIV/0!	-
Overall Output Performance							#DIV/0!	-

IV. Project Investment Profitability for IDB (Std # 26)

Highly Satisfactory Satisfactory Unsatisfactory Highly Unsatisfactory

IV.A Project Gross Profit Contribution to IDB (Std #36)

Highly Satisfactory Satisfactory Unsatisfactory Highly Unsatisfactory

Complete this box after answering all questions of the section. Before completing the box, delete this message.

Issues to be considered to complete this box:

- a) Indicate the loan performance, taking into account the interest paid during the life of the loan, the scheduled payments and possible delays that may have occurred.
- b) Take into

account the expected performance indicating if the projected is going to fully perform or not.
 c) In case a restructuring has taken place, indicate the characteristics, the reasons and its impact on the Bank's profitability.

Is the loan expected to be paid as originally scheduled?

Yes No

If not, has the loan or guarantee been re-scheduled?

Yes No

Is the loan expected to be paid as re-scheduled?

Yes No

What is the % of interest or fees received in comparison with the expected at approval?

V. IDB Operational Effectiveness (Std # 26)

V.A Screening, Appraisal and Structuring Work (Std #37)

Highly Satisfactory Satisfactory Unsatisfactory Highly Unsatisfactory

Complete this box after answering all questions of the section. Before completing the box, delete this message.

Issues to be considered to complete this box:

- a) Comment on the general efficiency in preparing the operation, taking into account the times of response to the client and the costs of preparation and supervision transferred to the client.
- b) Describe in detail the reasons for the delays, in case they have existed, indicating whether they were originated by the Bank, the client or other reasons
- c) Comment on the Bank's Clients satisfaction with the work performed by the Bank in these issues.
- d) Comment on the structuring of the operation, regarding risk mitigation, in particular on the mitigation measures that were adopted and their effectiveness in mitigating events occurring during the life of the project.

Date analysis - Preparation

First contact with client	<input type="text"/>
Pipeline entry	<input type="text"/>
Date of eligibility	<input type="text"/>
Mandate letter (if applicable)	<input type="text"/>
Loan Committee / Private Sector Committee	<input type="text"/>
Board Approval	<input type="text"/>
Term Sheet	<input type="text"/>
Signing of contract (Closing)	<input type="text"/>

Internal process

First contact-Pipeline	-
Pipeline-Eligibility	-
Loans eligibility's	-
Eligibility-Approval	-
Approval - Signing	-
Eligibility - Signing	-

Response to client

1st. Contact-Mandate letter	-
1er Contact-Term Sheet	-
Mandate letter -Term Sheet	-
1st. Contact-Closing	-
Mandate letter-Closing	-
Term Sheet-Closing	-

Were there delays in the processing of operations?

YES NO

In case delays have occurred, What were the reasons?

Bank Related Issues

Environmental eligibility issues	<input checked="" type="checkbox"/>
Eligibility process	<input checked="" type="checkbox"/>
Due Diligence Process	<input checked="" type="checkbox"/>
Procurement Process to Hire Independent Consultants and/or Lawyers	<input checked="" type="checkbox"/>
Preparation of Contracts	<input checked="" type="checkbox"/>
Approval Process after Eligibility	<input checked="" type="checkbox"/>

Client Related Issues

Provision of information	<input type="checkbox"/>
Regulatory or Pending Legal Issues within the company	<input type="checkbox"/>
Problems related to corporate governance of the Company/ies	<input checked="" type="checkbox"/>
Serious Environmental, Social, Health and Safety Issues	<input checked="" type="checkbox"/>
Presence of previous undisclosed risks	<input checked="" type="checkbox"/>
Presence of immitigable risks	<input checked="" type="checkbox"/>

Syndication Process / Lack of Blenders Interest

Other:

Other Issues

Negotiation of Financial Conditions
 Negotiation of "Security Package"
 Financial unavailability of the operation

Presence of risks with no mitigation mechanisms available
 Other:
 Other:

Indicate the costs of consultancies and others payments by the Borrowers or Sponsors.

	Initial Costs/ Due Diligence	Up to Date Supervision Costs	Expected Future Costs	Total
Engineering Analysis	<input type="text"/>	<input type="text"/>	<input type="text"/>	0
Environmental Analysis	<input type="text"/>	<input type="text"/>	<input type="text"/>	0
Economic Analysis	<input type="text"/>	<input type="text"/>	<input type="text"/>	0
Market Analysis	<input type="text"/>	<input type="text"/>	<input type="text"/>	0
International Legal Advisors	<input type="text"/>	<input type="text"/>	<input type="text"/>	0
Local Legal Advisors	<input type="text"/>	<input type="text"/>	<input type="text"/>	0
Other	<input type="text"/>	<input type="text"/>	<input type="text"/>	0

Complete the table on Risks below, taking into consideration section III of the PPMR and PSR of the Project.

Which events affected the normal development of the project?	Type of Risks	Does it have financial impact on the project?	Were there mitigation measures considered?
	Please, Select ▼	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	Please, Select ▼	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	Please, Select ▼	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	Please, Select ▼	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	Please, Select ▼	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	Please, Select ▼	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	Please, Select ▼	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	Please, Select ▼	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	Please, Select ▼	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

V.B Monitoring and Supervision Quality (Std #38)

Highly Satisfactory Satisfactory Unsatisfactory Highly Unsatisfactory

Complete this box after answering all questions of the section. Before completing the box, delete this message.
 Issues to be considered to complete this box:
 a) Comment on the characteristics of the credit risk analysis of the operation, focusing on its weaknesses and strengths for the project itself and its capacity to correctly reflect the operation credit risk
 b) Comment on the compliance with Bank standards in relation to credit risk monitoring and development of the operation, focusing on the regularity in monitoring.
 c) Comment on the supervision missions and their motives. Indicate whether, during these visits, elements of risk were found which could not be perceived from HQ or Regional Offices.
 d) Comment on the project compliance with the Convenants established in the contracts and the capacity of the Bank for monitoring compliance with them.
 e) Comment on the waivers that were granted particularly giving detail of all the financial waivers that were requested and granted

- e) Comment on the waivers that were granted, particularly giving detail of all the material waivers that were requested and granted.
- f) Comment on the Project Supervision Reports.
- g) Comment on the level of satisfaction of Bank Clients (particularity lenders and coguarantors) regarding supervision and monitoring activities

Risk Monitoring and Management

When was the date of preparation of the **first** Project Supervision Report?

Date	Hyperlink to document (place in the box)
<input type="text"/>	<input type="text"/>
<input type="text" value="0"/>	Number of days since the Mandate Letter
<input type="text" value="0"/>	Number of days since Term Sheet
<input type="text" value="0"/>	Number of days since Board Approval
<input type="text" value="0"/>	Number of days since Closing

What has been the longest period between the preparation of the two SARs?

Please, Select

Has there been at least one Supervision Mission since the closing of the operation to this date?

YES NO

Have the Project Performance Monitoring Reports (PPMR) been prepared annually as indicated by Bank policies?

YES NO

Has the Project been in non-compliance of a "reporting" covenant for more than 3 months?

YES NO

Project Financial Covenant details and level of Performance.

Financial Covenant	Req. Ratio	Actual Ratio	Has there been Non-Compliance in the Annual Reports?	Comments
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="radio"/> YES <input type="radio"/> NO	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="radio"/> YES <input type="radio"/> NO	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="radio"/> YES <input type="radio"/> NO	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="radio"/> YES <input type="radio"/> NO	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="radio"/> YES <input type="radio"/> NO	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="radio"/> YES <input type="radio"/> NO	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="radio"/> YES <input type="radio"/> NO	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="radio"/> YES <input type="radio"/> NO	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="radio"/> YES <input type="radio"/> NO	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="radio"/> YES <input type="radio"/> NO	<input type="text"/>

V.C Role, Contribution and Additionality of the IDB (Std #39)

Highly Satisfactory Satisfactory Unsatisfactory Highly Unsatisfactory

Complete this box after answering all questions of the section. Before completing the box, delete this message.

Issues to be considered to complete this box:

a) Describe in detail each of the elements in which the additionality of the Bank in the operation has been detected. In case additionality has taken place in

"Other issues" indicate which they were.

b) Indicate Client perception on the level of Bank additionality

c) Indicate in which way this operation is part of the country Strategy for the sector and the Bank's Strategy with the country.

d) Comment on the level of institutional coordination among the different departments within the Bank. Specify the moment in which the coordination took place (preparation, supervision, follow up) and which departments participated in it.

Financial Additionality of Bank Involvement in the project.

Did the Bank involvement in the operation facilitate the mobilization of B- Lenders and other actors?

YES NO

Did the Bank involvement in the project facilitate the mobilization of financial resources to the project?

YES NO

Did the Bank involvement in the project facilitate the access to capital markets?

YES NO

Did the Bank involvement in the project reduce the funding costs, and/or increase the loan tenor?

YES NO

Did the Bank involvement in the project help to tap local institutional investors?

YES NO

Did the Bank involvement in the project introduce new financial instruments hitherto unavailable locally?

YES NO

Did the Bank involvement in the project mobilize other funding sources?

YES NO

Did the Bank involvement in the project provide other Financial Additionality Issues?

YES NO

Regulatory Additionality of Bank Involvement in the project.

Did the Bank involvement in the project help to clarify regulatory issues that affected the project?

YES NO

Did the Bank involvement in the project provide comfort to investors that the host government would fulfill its regulatory and contractual obligations?

YES NO

Did the Bank involvement in the project provide support for regulatory, institutional and legal improvements?

YES NO

Did the Bank involvement in the project provide other Regulatory Additionality?

YES NO

Environmental, Social, Health and Safety (ESHS) Additionality of Bank Involvement in the project.

Did the Bank Involvement in the project require higher environmental, social, health and safety standards than those required in the host country?

YES NO

Did the Bank Involvement in the project improve or exceed transparency and information requirements related to information disclosure and public consultation regarding expected ESHS impacts in the country?

YES NO

Did the Bank Involvement in the project help to include specific concerns of the affected population regarding ESHS in the project designs?

YES NO

Did the Bank Involvement in the project improve the monitoring and supervision activities of the project regarding ESHS issues?

YES NO

Did the Bank involvement in the project provide other ESHS Additionality?

YES NO

Corporate Governance Additionality or other value added of Bank Involvement in the project.

Did the Bank involvement in the project establish minimum equity requirements?

YES NO

Did the Bank involvement in the project establish prudent management practices?

YES NO

Did the Bank involvement in the project impose covenants on share transfers?

YES NO

Did the Bank involvement in the project introduce labor and ethical standards?

YES NO

Did the Bank involvement in the project improve borrower/sponsor internal controls?

YES NO

Did the Bank involvement in the project improve borrower/sponsor external audits?

YES NO

Did the Bank involvement in the project improve borrower/sponsor financial management?

YES NO

Did the Bank involvement in the project improve borrower/sponsor transparency for the processes involved in the realization of the project, including asset acquisition, licensing and permits?

YES NO

Did the Bank involvement in the project provide other Corporate Governance Additionality?

YES NO

Coherence with Bank Strategies, Policies and Programs.

Does the project follow the Bank's Sectoral Policy and are the mandates related to the Private Sector?

YES NO

Does the project follow the Bank's Country Strategy?

YES NO

Was the project anticipated in the Country Program Document?

YES NO

Are there references in the Project Document to the Country Program Document?

YES NO

Are there any references in the Project Document to the Bank's Operative Policies or to the Sector Strategies?

YES NO

Inter-Department Coordination

Was there participation from specialists from other Departments (e.g. MIF,IIC), as members of the project team, besides the legal Department?.

- SDS
- Environment and Natural Resources (Region 1, 2 o 3)
- Finance and Infrastructure (Region 1, 2 o 3)
- Country Offices
- Multilateral Investment Fund
- InterAmerican Investment Corporation
- Other
- Other 2

Were there any private or public operations of the Bank related to the sector and relevant to this operation?

YES NO

If the answer is positive, were the results analyzed before this operation?

YES NO

Do the project document or technical files make reference to the experiences gathered by the Bank in the sector, country, or region?

YES NO

Have they been used as part of the preparation of the projects in any Economic Sector Work published by the Bank?

YES NO

Have there been any MIF operations in the Project intervention area?

YES NO

If the answer is positive, is MIF intervention relevant to the project?

YES NO

Did MIF participate during the preparation of the project through specific actions related to the project?

YES NO

Did IIC carry out any operation with any company linked to this operation ?

YES NO

If the answer is positive, did the Investment Officials participate or were they consulted on the operation?

YES NO

VI. Lessons Identified

Indicate the Lessons to be Learned regarding Project Development Outcome

Indicate lessons that can be relevant for new operations (Std # 64). Delete this message before writing

Indicate the Lessons to be Learned regarding Project Investment Profitability for IDB

Indicate lessons that can be relevant for new operations (Std # 64). Delete this message before writing

Indicate the Lessons to be Learned regarding IDB's Operational Effectiveness

Indicate lessons that can be relevant for new operations (Std # 64). Delete this message before writing

VII. Internal Peer Review

Survey for Main Project Sponsors or Borrower (I available)

Link to Survey's Full Response

XPSR Team Final Meeting Minutes

Link to Survey's Full Response:

Other Relevant Documents:

Link to Relevant Document

**MULTILATERAL DEVELOPMENT BANKS (MDB)
EVALUATION COOPERATION GROUP (ECG)
Working Group on Private Sector Evaluation (WGPSE)**

**MDB-ECG Good-Practice Standards for
Evaluation of
Private Sector Investment Operations
Second Edition**

May 16, 2003

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MDB-ECG Good-Practice Standards for Evaluation of Private Sector Investment Operations

I. Background and Context

1. **MDB Task Force Report.** In 1996, a Development Committee Task Force called for harmonization of evaluation methodologies, performance indicators and criteria by the MDBs:

The development of objective indicators of performance is also essential for the public accountability of the MDBs and their ability to justify their use of public resources to shareholder governments, parliaments, and the public. Currently, it is not possible to compare their operational results, or even to describe them in a common language. Major public sector institutions like the MDBs must be able to account for their efforts in readily understood terms. A common methodology for evaluating their portfolios should be developed and kept up to date over time, with best practices in evaluation techniques being identified and disseminated. A determined effort should be made to harmonize performance indicators and evaluation criteria, taking into account the differing circumstances of each institution. The lessons learned from these evaluations should be shared among the MDBs with a view to applying them quickly in new operations.

The heads of the...MDB evaluation units...[should] be charged with elaborating common evaluation standards, including performance indicators; exchange experience with evaluation techniques, share results; and become the repository of best evaluation practices. The immediate task would be to develop, within a specified time period, methodology and criteria for assessing and rating the MDB's operational performance and development effectiveness.¹

2. **MDB response.** The MDBs have accepted this mandate:

The [Evaluation Cooperation] Group² will continue its efforts to make evaluation results comparable and to have their findings properly translated into operational standards. Meeting in Hong Kong in October 1997, the MDB presidents...strongly endorsed further intensification of collaboration among MDB evaluation units in harmonizing evaluation standards and activities, defining more effective linkages between independent and self-evaluation....The harmonization dialogue will be extended to...evaluation of private sector operations.³

3. And the ECG has, in turn, set down its intentions:

The ECG (i) works to strengthen cooperation among evaluators and (ii) seeks to harmonize evaluation methodology in its member institutions, so as to enable improved comparability of evaluation results while taking into account the differing circumstances of each institution.

¹ Development Committee, Task Force on Multilateral Development Banks, "Serving a Changing World-- Report of the Task Force on Multilateral Development Banks," March 15, 1996, p. 18.

² Referred to herein as the ECG.

³ Development Committee, "Report from the Multilateral Development Banks on Implementation of the Major Recommendations of the MDB Task Force Report", March 26, 1998, p. 4.

Harmonization in the ECG includes increased information sharing and improved understanding of commonalities and differences in evaluation policies, procedures, methods and practices and is not interpreted by members as “standardization of evaluation policies and practices.”⁴

4. **Subsequent developments.** In 2001, the ECG issued “MDB-ECG Good-Practice Standards for Evaluation of Private Sector Investment Operations.” Among other things, this document called for periodic assessments of the extent to which the good-practice standards were being applied.⁵

5. The first assessment, completed in late 2002, not surprisingly found that harmonization was at an early stage. The members’ policies and practices were, on average, materially consistent with 39% of the standards. The ratings for individual member ranged from 8% to 93%. Three factors accounted for the shortfalls. First, some members believed they had insufficient leverage to mobilize the management and staff cooperation and budgetary allocations needed for adoption and application of the standards. Second, some had begun to address the issue of adopting the standards only recently. Third, a few disagreed with some standards or considered them to be inappropriate.⁶

6. Based on this assessment, the ECG’s Working Group on Private Sector Evaluation agreed in March 2003 on a number of revisions in the GPS-IO. The second edition of the GPS-IO, which accompanies this memorandum, reflects these revisions.

II. The Revised Good Practice Standards for Investment Operations

7. **The Standards.** Attachment 1 sets forth the revised GPS-IO. This Attachment also provides comments on the standards, the criteria to be used in rating the degree of harmonization achieved, and some examples of application the standards. Attachment 2 provides a glossary to facilitate an understanding of the standards, and Attachment 3 summarizes some terminology specific to individual MDBs.

8. **Core and non-core standards.** Some of the standards are necessary to permit comparability of operational results among the MDBs, as prescribed by the Development Committee. These are categorized as *core standards*. Others are not needed for comparability but are nonetheless designed to help improve accountability and learning within each institution. These are *non-core standards*.

9. **Good-practice and best-practice standards.** The *good practice standards* lay down the key principles that any development institution that finances the private sector should follow if it is to have a satisfactory evaluation system. The *best practice standards* reflect more detailed practices that are desirable but not essential.

⁴ ECG, “Amended ECG Mandate,” approved by ECG members April 2003.

⁵ MDB, ECG, Working Group on Private Sector Evaluation, “MDB-ECG Good-Practice Standards for Evaluation of Private Sector Investment Operations, Main Text” April 23, 2001, p. 17. Referred to herein as the GPS-IO.

⁶ Walter I. Cohn & Associates, LLC, “Benchmarking of ECG Members’ Evaluation Practices for Their Private Sector Investment Operations Against Their Agreed Good-Practice Standards,” October 18, 2002.

10. Issues covered. The standards cover a wide range of issues:

GPS Nos.	Scope
1-8	<i>The roles of independent and self-evaluation</i> <ul style="list-style-type: none"> • The governance structure of the central evaluation department • The split of responsibilities between independent and self-evaluation
9-15	<i>Evaluation timing, population, coverage and sampling</i> <ul style="list-style-type: none"> • Identification of population from which sample for evaluation is to be drawn, including project maturity at evaluation • Evaluation coverage, i.e., proportion of population to be evaluated • Sampling
16-25	<i>Instructions, execution, and independent validation, i.e., diligence and rigor of execution and review</i>
26-50	<i>Evaluative scope</i> <ul style="list-style-type: none"> • Performance dimensions evaluated, i.e., development or transition outcome, MDB's investment profitability, and MDB's work quality • Indicators for each of these performance dimensions • Performance ratings—principles and benchmarks
51-63	<i>Annual reporting and process transparency</i> <ul style="list-style-type: none"> • Annual synthesis reporting, i.e., annual review • Process transparency, i.e., annual report
64-73	<i>Identification of lessons, dissemination, and ensuring application of lessons</i> <ul style="list-style-type: none"> • Identification of lessons • Dissemination of findings and lessons • Ensuring application of lessons • Disclosure

11. Issue not yet covered. Although the GPS-IO define the performance dimensions to be rated, the performance indicators to be used in assigning ratings for these dimensions, and the criteria to be used in assigning ratings for these performance indicators, they do not incorporate rating benchmarks. To the extent that the Members have not adopted common benchmarks for what is required for each rating for each of the performance indicators, evaluative judgments cannot be compared.⁷ This issue needs to be addressed, but the WGPSE's ability to agree on common benchmarks may be constrained, *inter alia*, by the lack of common benchmarks among the MDBs in their investment decisions.

III. Implementation and Monitoring

12. Ratings harmonization. In issuing the GPS-IO in 2001, the Members agreed to review periodically their measurement methods, ratings systems, guidelines and benchmarks with the aim of judging and reporting outcomes according to consistent standards and advancing the ECG's harmonization agenda as far as possible. To this end, they agreed to share all evaluation documentation, including self-evaluation instructions,

⁷ For example, one institution may require a 10% economic rate of return for a satisfactory rating and another may require a 12% economic rate of return. Even if the first institution reports that 80% of its projects achieved satisfactory returns and the second one reports that 70% achieved satisfactory returns, one cannot conclude that the performance of the first institution is better than the second.

ratings guidelines, best-practice reports, annual reviews, and annual (evaluation system quality) reports on a confidential basis (all subject to editing as needed to protect confidentiality requirements). As Members reach further agreements on methods, rating standards, and benchmarks, they will document them in subsequent refinements of the GPS-IO.

13. Convergence progress monitoring. As indicated earlier, the Members also agreed in 2001 to arrange for periodic independent crosscutting assessments of the extent to which the good-practice standards are being applied in their agencies' evaluations and annual reporting and to report the findings to the MDB Presidents. The Members envisage a further benchmarking assessment in 2003.

May 16, 2003

GOOD PRACTICE STANDARDS – SECOND EDITION

<i>Std #</i>	<i>Core or Non-Core</i>	<i>Summary of Standard</i>	<i>Comments</i>
		Roles of Independent and Self-Evaluation	
		<i>Structure and role of independent evaluation, i.e., of Central Evaluation Department (CED):</i>	
1	Core	CED has a Board-approved mandate statement, designed to ensure independence and relevance.	Must be approved by Board of Directors to be rated as MC.
2	Core	<i>Good Practice.</i> The mandate provides that the Board of Directors oversees CED's work and that the CED's reporting line, staff, budget and functions are organizationally independent from the MDB's operational, policy and strategy departments and related decision-making. <i>Best practice.</i> In addition, the mandate specifies that the Board has the ultimate decision authority for (1) hiring and terminating CED head and staff; (2) CED head's appointment terms and reporting structure; (3) CED head's and staff's grading, performance reviews and pay increases; and (4) the CED's budget.	BP and MC ratings require explicit statements in mandate or equivalent document. For a sample mandate, see Exhibit 1 .
3	Non-core	CED operates with full autonomy but in close consultation with the MDB's other departments to ensure as far as possible (subject to the primacy of sound evaluative principles and practices) coherence of corporate standards (as among operations, portfolio and strategy analysis, and evaluation) and good prospects for corporate ownership of CED's findings and recommendations for improvement. To this end, CED seeks alignment, as far as possible, of performance measures and standards used in evaluations and in non-CED reports to management and Board.	Critical word is "operates." Does not require explicit statement in mandate. This GPS deals with actions taken by CED. GPS 70 deals with outcomes
4	Core	Under its mandate, CED's scope of responsibility extends, without restriction, to all determinants of the MDB's operational results.	If management has right to approve or disapprove program, it can limit scope of responsibility and, thus, highest rating possible would be PC.
5	Core	The mandate states that CED has unrestricted access to MDB's staff, records, co-financiers, clients and projects. The mandate may, however, allow for restrictions on access to clients and projects in jeopardy cases, where an evaluator's visit could prejudice the MDB's financial interests or materially increase the risk of litigation. Should client access be restricted in jeopardy cases, the number of such cases should be reported in the MDB's annual report or annual review.	MC rating requires explicit statement in mandate.
6	Core	The mandate provides that CED transmits its reports to MDB's Board after review and comment by management but without management clearance or any management-imposed restrictions on their scope and contents.	MC rating requires explicit statement in mandate designed to protect MDB against management-imposed restrictions.
7	Non-	The mandate provides that CED's manager holds grade-rank at least equal	MC requires that provision be embodied in mandate. Specification of title meets this

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	core	to that of operational department directors.	requirement if title implies grade-rank equivalent to operational department directors.
		<i>Responsibilities of operations departments in self-evaluation and related reporting:</i>	
8	Core	<p><i>Good practice.</i> Execute XASRs on investments⁸ selected pursuant to GPS 14-15 in accordance with CED’s sample selection and evaluation guidelines.</p> <p><i>Best practice.</i> In addition, deliver XASRs according to a schedule designed to spread the review load throughout the program year and allow CED to complete the annual review on schedule.</p>	
		Evaluation Timing, Population, Coverage and Sampling	
		<i>Identification of population from which sample for evaluation is to be drawn; timing of consideration for evaluation:</i>	
9	Core	Taking into consideration information on project maturity status provided by other departments, CED determines the <i>population</i> from which the investments to be evaluated each year are to be drawn.	Similar to GPS 14, which calls for CED’s selecting the sample of projects to be evaluated.
10	Core	<p>The population from which the investments to be evaluated each year are to be drawn consists of the investments that will have reached <i>early operating maturity</i> (as defined in GPS 11 and 12) during the year.</p> <ul style="list-style-type: none"> Subject to certain exclusions, specified below, the population includes all disbursed (including partially cancelled) investments⁹-- whether still active or already closed (paid-off, sold or written off)-- that have reached early operating maturity. The population also includes investments already closed, even if they never reached early operating maturity. Excluded from the population are dropped and cancelled investments, very small investments made under special promotional 	<p>Since visits to closed investments may not be feasible and since operational staff may be unwilling to devote resources to visiting closed investments, CED may carry out abbreviated desk reviews to evaluate these operations. The important thing is that they not be excluded from the population, which would introduce bias in reporting on overall outcomes.)</p> <p>For already-closed investments that are selected for an XASR, the XASR consists of the last available supervision report and the attached evaluative addendum.</p> <p>IFC’s practices are reflected in Exhibit 2.</p>

⁸ For guarantee operations, references to “investments,” here *et passim*, should be replaced by “guarantees.”

⁹ For guarantee operations, references to “disbursed investments,” here *et passim*, should be replaced by “committed guarantees.”

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		<p>programs (e.g., direct investments in SMEs that are evaluated on a program basis through a CED special study), subscribed rights offerings and investments undertaken to help finance cost overruns on projects previously financed by the MDB.</p> <ul style="list-style-type: none"> Projects that have not yet reached early operating maturity are excluded from the current evaluation year's population and rolled forward for inclusion in the population in a future year when they will have reached early operating maturity. Investments are included in the population from which the sample for evaluation is drawn only once, i.e., only for the year in which they will have reached early operating maturity 	
11	CCore	<p>All operations other than the financial markets operations specifically covered by GPS 12 are deemed to have reached <i>early operating maturity</i> when (a) the project financed will have been substantially completed, (b) the project financed will have generated at least 18 months of operating revenues for the company and (c) the MDB will have received at least one set of audited annual financial statements covering at least 12 months of operating revenues generated by the project.</p>	<p>MC requires that definition of early operating maturity be consistent with GPS.</p>
12	CCore	<p>Financial markets projects with identifiable sub-projects financed by the MDB's investment are deemed to have reached <i>early operating maturity</i> when:</p> <ul style="list-style-type: none"> For lending operations: at least 18 months shall have elapsed after the MDB's final disbursement of its loan. For investment funds: substantially all of the projects financed will have generated at least 12 months of operating revenues. 	<p>This standard is not applicable to financial markets projects that do not finance identifiable sub-projects that can be linked to a MDB's assistance. These operations are covered under GPS 11.</p> <p>MC requires that definition of early operating maturity be consistent with GPS.</p> <p>Based on this standard, financial markets projects would be deemed to have reached early operating maturity at an earlier stage than other projects. Consequently, evaluations of financial markets projects are likely to be subject to a positive bias compared with other projects. The MDBs, however, are unlikely to have the information needed to apply GPS 11 to financial markets projects, particularly when they need to determine whether projects have reached early operating maturity. To provide a basis for a more appropriate standard, it would be useful for one of the MDBs to review a sample of its financial markets projects to determine the number of months required after final loan disbursement for substantially all sub-projects to meet the tests of GPS 11. Alternatively, one of the MDBs could review a sample of its financial markets projects to determine (i) whether a test calling for substantially all sub-borrowers to have completed their grace periods and begun to repay loan principal would yield results comparable to GPS 11 and (ii) whether the MDB would</p>

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			have access to this information based on its normal reporting requirements.
13	CCore	<p>Evaluation coverage:</p> <p><i>Good practice:</i> Preparation of XASRs (with XASR-As), PERs, or a combination of the two on a random, representative sample of sufficient size to establish, <i>for a combined three-year rolling sample</i>, success rates at the 95% confidence level, with sampling error not exceeding $\pm 5\%$, for the population's development (transition) outcome, MDB investment outcome and MDB work quality.</p> <p><i>Transitional good practice:</i> Preparation of XASRs (with XASR-As), PERs, or a combination of the two on a random, representative sample equivalent to 60% or more of the investments in the population. In using this standard, an MDB reports on the confidence level and sampling error applicable to the success rates for the population's development or transition outcome, MDB investment outcome and MDB work quality. An MDB can use this standard only until its combined three-year rolling population of projects reaching early operating maturity reaches 50.</p> <p><i>Best practice-Alternative 1:</i> Preparation of XASRs (with XASR-As), PERs, or a combination of the two on a random, representative sample of sufficient size to establish, <i>for a combined three-year rolling sample</i>, success rates at the 95% confidence level, with sampling error not exceeding $\pm 5\%$, for the population's development or transition outcome, MDB investment outcome and MDB work quality <i>within each of the MDB's current strategically targeted groups</i>.</p> <p><i>Best practice-Alternative 2:</i> Preparation of XASRs (with XASR-As), PERs, or a combination of the two on 100% of the investments in the population</p>	<p>XASRs are prepared by operating staff and then validated by CED, with the results reflected in an XASR-A. This approach is more efficient, and it fosters ownership of XASR and annual review findings and ratings judgments, learning from experience and accountability for results.</p> <p>PERs may lead to assignment of more accurate ratings and more useful lessons. By carrying out field visits, a CED is able to gather additional information that allows it to review a project in a new light and revise self-evaluation ratings that it might not have questioned based on a desk review of a self-evaluation report. Self-criticism is not a natural human inclination and is not encouraged in most organizations. Moreover, operational staff normally lack cross-cutting, wider experiences that would balance their experience with a specific project with other projects handled elsewhere in the institution.</p> <p>A CED has full discretion to carry out a PER on any operation. It will normally do so where an XASR's findings raise substantive validation or credibility challenges; where an XASR's quality was so poor, even after follow-up, as to not allow CED to independently establish the appropriateness of the XASR's ratings; or where it considers a PER to be useful for learning purposes.</p> <p>The standard calls for meeting certain confidence level and sampling error tests. These tests would be applied to the combined sample for the three years ending with the most recent year for which evaluation results are available. Thus, in an MDB's annual review for, say, 2004, it would look at the combined results of the evaluations carried out during 2001, 2002 and 2003.</p> <p>The good-practice standard is the minimum required for meeting the ECG's harmonization goal at the corporate level. However, to generate statistically significant sub-sample results for use in formulating corporate strategies or holding departments accountable for their results, a higher coverage would be needed, as envisaged in the best-practice standards.</p>
		Sampling:	
14	Core	The CED selects the operations for XASRs and PERs from the evaluation year's population (as defined above), subject to the following standard.	Similar to GPS 9, which calls for CED to determine the population from which the sample is to be drawn. The key point in both standards is that the CED selects the

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15	Core	<p>If coverage is less than 100%, the sample should be both random and representative.</p> <p>Notwithstanding this principle, a CED may wish to select projects to be covered by PERs based, e.g., on the potential for learning, the high profile of an operation, credit and other risks, whether the sector is a new one for the MDB, the likelihood of replication, or the desirability of balanced country and sector coverage. If so and if the CED wishes to combine the PER with the XASR-A findings in reporting annual success rates, it uses stratified sampling methodology, as follows:</p> <ul style="list-style-type: none"> • It splits the population into two strata. The first consists of the projects CED selects for PERs. The second consists of the remaining projects, i.e., the population other than the projects selected for the first stratum. • CED evaluates 100% of the first stratum. The success rates from the sample are, thus, identical to the success rates for this portion of the population. • CED selects a random sample from the second stratum. The operational staff prepares XASRs on the projects selected, and CED prepares XASR-As on these projects (or a random sample of them). The sample is sufficiently large to give reliable estimates of the success rates for that stratum. • Based on the weight of each stratum in the overall population, CED then calculates the weighted average success rates and sampling errors, following the normal procedures for stratified sampling. <p>If the CED wishes to select projects to be covered by PERs as above <i>but does not wish to combine the PER with the XASR-A findings in reporting annual success rates</i>, it draws the sample to be covered by XASRs from the full population for the year, without previously eliminating the projects to be covered by PERs. To the extent that specific projects may be selected for XASR-As and PERs, CED would use the PER ratings, rather than the XASR-A ratings in reporting on success rates, since CED will have carried out a more rigorous review in these cases.</p>	<p>sample, not management or the operational staff.</p> <p>Only random or stratified random samples support performance inferences about the sampled population. Representativeness is important for <i>prima facie</i> plausibility of the results and because of performance variances among sub-sets of the population. For example, IFC has found that certain investment departments have generally achieved higher work quality than others; equity success rates are lower than for loans; large investments perform better than small investments; investments with specific loss provisions at evaluation tend to have lower outcome ratings; and greenfield projects have worse outcomes than expansion projects.</p>

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		Instructions, Execution and Validation	
		<i>Instructions & familiarization:</i>	
16	Core	In consultation with operations departments, CED prepares, refines and disseminates instructions for the preparation of XASRs and PERs in sufficient detail to promote consistency and objectivity in execution scope, analysis and ratings. As part of dissemination efforts, some CEDs may wish to conduct workshops to familiarize the XASR teams with requirements and supporting documentation for achieving good-practice execution.	
17	Core	<i>Good practice:</i> The instructions include ratings guidelines with benchmarks and standard reporting templates that include the performance ratings matrix. <i>Best practice:</i> The instructions also include related documentation, such as an overview of the XASR program, a description of efficacious execution process steps, good-practice examples of XASRs from previous years' samples, and a list of execution mistakes to avoid (informed by past XASRs).	IFC's instructions are shown in Exhibit 3A, 3B and 3C .
18	Non-core	CED maintains these instructions on its website.	
		<i>Execution:</i>	
19	Core	The research for XASRs and PERs draws from a file review; discussions with available staff involved with the operation since its inception; independent research (e.g. on market prospects); a field visit to obtain company managers' insights and to the project site to observe and assess outcomes; and discussions with parties who are knowledgeable about the country, company and project (e.g. MDB specialists, company employees and auditors, suppliers, customers, competitors, bankers, any relevant government officials, industry associations, and local NGOs).	MC requires, <i>inter alia</i> , a field visit for substantially all XASRs and PERs. Information on when the field visit took place and who participated in the field visit needs to be included in the XASR or PER or in the transmittal memo (GPS 20). Some MDBs may wish to call for information on persons interviewed (with titles and affiliations).
		<i>Review and independent validation:</i>	This sub-section is not applicable to PERs.
20	Non-core	<i>Good practice.</i> The standard transmittal memo on the XASRs executed by operations department staff incorporates the approval (or electronic check-off) by the responsible operations department manager.	The XASR findings comprise a set of representations by management (through the CED) to the Board, and a sign-off or check-off comprises the only written evidence of the operating management's endorsement of the staff's representations.

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		<i>Best-practice.</i> In addition, the standard transmittal memo on the XASRs executed by operations department staff incorporates the approval (or electronic check-off) and, if relevant, cites disagreements by other departments, e.g., technical, environmental, economics and syndications.	
21	Non-core	To provide transparency with respect to field visits (GPS 19), the XASR or PER or the XASR transmittal memo provides information on when field visit took place and who (i.e., representatives of which departments) participated in the field visit.	
22	Core	CED conducts an independent review of each XASR to verify scope responsiveness, evident reliability of the analysis, impartiality and consistency in ratings judgments, and appropriateness and completeness of the identified lessons, and then, <i>for each randomly selected XASR to be used in the annual synthesis report on evaluation results</i> , prepares an XASR-A on the final-edition XASR that records its independent judgments on the report's quality in relation to the guidelines, assigned ratings and lessons.	See GPS 15 with respect to random sampling. The format for IFC's XASR-As is provided in Exhibit 4 .
23	Non-core	<i>Best-practice:</i> For XASRs recommended by CED, the relevant vice president, central portfolio manager, credit manager, or other manager at a level higher than the responsible officer and his or her manager chairs a review meeting that is attended by the XASR team and their managers, CED, and representatives of specialist departments (e.g. credit, technical and environmental, economics, legal, syndications and special operations) as relevant. Operations staff responsible for the operation at entry are invited to attend the review meeting, comment on the XASR's findings, or both.	
24	Core	Following preparation of each draft XASR-A, CED reviews with the XASR team and its manager the basis for its judgments where its ratings differ from those in the final edition XASR.	
25	Non-core	At the end of the program year and prior to submitting its annual review, CED sends a ratings validation variance memo to the responsible senior operations manager, with copies to the relevant XASR teams and their managers.	A sample ratings variance memo prepared by IFC's OEG is provided in Exhibit 5 .

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		Evaluative Scope	
		<i>Performance dimensions evaluated:</i>	
26	Core	<p><i>Good practice:</i> The scope of the XASR (and XASR-A) or PER includes, at a minimum,</p> <ul style="list-style-type: none"> • The <i>project's development or transition outcome</i>, i.e., the project's "results on the ground" relative to the MDB's mission. • The <i>MDB investment's profitability</i> (contribution to its corporate profitability objective), and • The <i>MDB's work quality</i> (also referred to as bank handling, operational effectiveness, or execution quality). 	
27	Core	The operation's performance under each of these dimensions is analyzed according to standard indicators, and the operation's performance for each indicator is rated according to criteria and benchmarks specified in the guidelines.	IFC's practices are reflected in Exhibits 3A and 7 .
28	Core	The performance reflected in the relevant indicator ratings is synthesized into ratings for each of the three performance dimensions, specified above.	In addition, some members provide an overall outcome rating synthesizing the three performance dimensions.
29	Core	Project outcomes for each of the indicators are assessed on a "with v. without project" basis..	MC requires that this rule be specifically stated.
30	Core	Assessments of development or transition outcomes for each of the development or transition outcome indicators take into consideration the sustainability of the results.	
		<i>Indicators for the development or transition outcome:</i>	
31	Core	<p>The project's development or transition outcome is based partly on the <i>project's contribution to the company's business success</i>, measured mainly:</p> <ul style="list-style-type: none"> • For capital expenditure projects: by the project's after-tax financial rate of return (FRR); • For financial markets projects: by the project portfolio's profit contribution to the financial intermediary or investment fund; 	<p>Evaluation of company business prospects is a key element in assigning a rating for or making a judgment on a project's contribution to company business success.</p> <p>EBRD assigns ratings for both (a) the project's contribution to the company's business success and (b) company performance with the project.</p>

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		<ul style="list-style-type: none"> For other projects: by the project's profit contribution and the achievements of the company's at-approval business objectives. 	
32	Core	<p>The project's development or transition outcome is based partly on the <i>project's contribution to the country's private sector development and/or its development of efficient capital markets and/or its transition to a market economy.</i></p>	<p>For projects other than financial sector projects, IFC rates contributions to private sector development primarily on the development of a sustainable private enterprise and secondarily on project-induced effects, e.g., (i) upstream and downstream linkages to local private businesses, (ii) new technology, development of management skills, and employee training, (iii) enhanced private ownership, (iv) stronger local entrepreneurship, (v) greater competition and competitiveness, (vi) broad demonstration effects, (vii) follow-on investments by other investors, (viii) domestic capital market development (e.g., pioneering listing on stock exchange or significant broadening of listed value; first-of-a-kind financing instrument; introduction of international accounting standards or enhanced disclosure standards), (ix) development of infrastructure available to other private users, or (x) company's reputation and business practices as a positive corporate role model and quality investment asset, among other things, because of its corporate governance practices, (xi) whether project-related technical assistance or the project's activities and services have helped create conditions conducive to the flow of private capital into productive investment, including, e.g., changes in specific laws, regulations or an improvement in their administration and enforcement.</p> <p>For financial sector projects, IFC rates contributions to the development of efficient capital markets on the economic and financial profitability and growth prospects of sub-projects, pioneering attributes, transfer of banking skills or technology, resource allocation efficiency, impact on competition, demonstration effects, linkages, catalytic effects on other companies, financial market development, and whether project-related technical assistance or the project's activities and services have helped create conditions conducive to the flow of private capital into productive investment, including, e.g., changes in specific laws, regulations or an improvement in their administration and enforcement.</p> <p>EBRD rates contributions to transition to a market economy based on (i) competition; (ii) market expansion via competitive interaction in the sector and the industry; (iii) framework for markets: institutions, laws and policies that promote market function and efficiency; (iv) skills transfer and dispersion to the industry and economy as a whole; (v) demonstration effects: transfer of new behavior and patterns; and (vi) new standards for business conduct.</p>
33	Core	The project's development or transition outcome is based partly on its	

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		<p><i>economic viability.</i></p> <p>For non-financial markets operations: Based mainly on the project's net quantifiable economic benefits and costs, as measured by the project's real economic rate of return (ERR).</p> <p>For financial market operations: Rated on whether the sub-projects financed are economically viable (as reflected, e.g., in sub-project ERRs or the portfolio credit or equity IRR performance combined with the absence of portfolio concentrations in protected industries); whether the project has led to use of economic viability criteria in the intermediary's or investment company's investment decisions; and benefits to the economy. In most cases, quantitative information on the economic viability of sub-projects is not available to the MDB. The judgment, therefore, relies on assessing portfolio financial performance and an assessment of the extent to which the intermediary or investment company invests in protected industries.</p>	
34	Core	<p>The project's development or transition outcome is based partly on its <i>contribution to the country's living standards</i>. This rating reflects the project's economic benefits and costs to those who are neither its owners nor its financiers, i.e., customers, employees, government, suppliers, competitors, local residents, etc.</p>	<p>One proxy to determine whether non-financiers are benefiting is the relationship of the quantifiable net benefit to all of society (captured in the ERR) to the net benefits accruing solely to the owners and financiers (captured in the FRR). $ERR > FRR$ suggests that benefits are accruing to people who have no investment at risk in the project. $ERR < FRR$ suggests that the project's owners and financiers may be benefiting at the expense of others. Not all outcomes, however, can be quantified and measured in the ERR. The rating, therefore, also reflects non-quantifiable outcomes and contributions to widely held development objectives, e.g., poverty reduction, social or gender inequality, concern for child labor, or regional or rural development.</p> <p>EBRD has no social mandate and considers that it, therefore, cannot assess contributions to improved living standards.</p>
35	Core	<p>The project's development or transition outcome is based partly on its <i>environmental sustainability</i> (benchmarked against compliance with the MDB's specified standards in effect (i) at investment approval and (ii) at the time of the evaluation). "Environment" includes the physical environment and, to the extent covered by the MDB's policies, also includes social, cultural, and health and safety impacts.</p>	<p>MC requires that performance be benchmarked against standards in effect at approval <i>and</i> at evaluation.</p> <p>EBRD bases its ratings on the environmental performance of the company and the extent of environmental change. It has no mandate to address social or cultural issues and considers, therefore, that it cannot assess performance with respect to these issues.</p>

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			<p>IFC assigns an excellent rating for projects other than financial markets projects if the project meets the higher of IFC's current or at-approval requirements and has materially improved the company's overall environmental performance or that of other local companies; a satisfactory rating if the project is in material compliance with IFC's at-approval requirements and has been over the life of the project; partly unsatisfactory if the project is not now, or has not been, in material compliance with IFC's at-approval requirements, but deficiencies have been or are being addressed through on-going or planned actions; or unsatisfactory if the project is not in material compliance with IFC's at-approval requirements, and mitigation prospects are uncertain or unlikely. A project may have materially improved environmental effects but still be less than satisfactory because of continued non-compliance.</p> <p>For financial markets operations, IFC considers the environmental and social performance of the projects financed by the intermediary and the intermediary's environmental management system. IFC assigns an excellent rating if the company engages in practices and sets standards beyond those required for the project type. For example, it requires all projects it finances (not only IFC-financed sub-projects) to meet IFC's at-approval requirements and monitors and enforces compliance through visits and reporting; satisfactory if the company meets requirement for the project. For example, the company requires only the IFC-financed sub-projects to comply with IFC at-approval requirements, and monitor and enforces compliance through visits and reporting or else the project has no impact potential; partly unsatisfactory if the company requires sub-projects to comply with IFC at-approval requirements but does little or nothing to follow-up on compliance through visits and reporting or it does not require sub-projects to comply with IFC at-approval requirements but is taking action to implement appropriate procedures or IFC did not require sub-project reviews but there is no evidence of material negative environmental impacts; and unsatisfactory if the company does not require its sub-projects to comply with IFC at-approval requirements and action to implement procedures is doubtful or IFC imposed no at-approval requirements and a significant portion of the sub-project portfolio is causing materially negative environmental impacts.</p>
		<p><i>Indicators for MDB's investment profitability:</i></p>	
36	Core	<p><i>Good practice.</i> MDB investment's profitability is based upon the investment's <i>gross contribution</i> in relation to corresponding at-approval standards for minimally satisfactory expected performance.</p>	

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		<p><i>Best practice #1.</i> If reliable transaction cost data are readily available from management information system, MDB investment's profitability is based on the investment's <i>net profit contribution</i>, measured in risk-adjusted, discounted cash flow terms with ratings benchmarks set in relation to approval-stage minimum return threshold.</p> <p><i>Best practice #2.</i> If reliable transaction cost data are readily available from management information system, MDB investment's profitability is based on the investment's <i>net profit contribution in relation to the capital employed for the investment</i>, measured in risk-adjusted, discounted cash flow terms with ratings benchmarks set in relation to approval-stage minimum return threshold.</p>	
		<i>Indicators for MDB's work quality:</i>	
37	Core	The rating for the MDB's work quality is based partly on <i>at-entry screening, appraisal and structuring work</i> ; i.e., how effectively the MDB carries out its work prior to approval of the investment.	
38	Core	The rating for the MDB's work quality is based partly on its <i>monitoring and supervision quality</i> , i.e., how effectively the MDB carries out its work after approval of the investment.	
39	Core	The rating for the MDB's work quality is based partly on its <i>role, contribution and additionality</i> , i.e., the need for the MDB's participation relative to other available financing and the quality of the MDB's additionality from inception to evaluation. The rating judgment considers compliance with basic operating principles, the MDB's contribution to client capacity building objectives (as relevant), it's the operation's consistency with furtherance of the MDB's corporate, country and sector strategies, and its clients' satisfaction with the MDB's service quality.	
40	Core	Assessments of the MDB's work quality should be made independently of the ratings assigned for development or transition outcomes and MDB's investment profitability. These assessments, which are benchmarked against corporate good practice, reflect the quality of the MDB's contributions to good or bad outcomes, not the good or bad outcomes themselves.	
		<i>Performance ratings—principles and benchmarks:</i>	
41	Core	Within the rating scales (e.g., ranging from <i>unsatisfactory</i> to <i>excellent</i>), there should be balance between positive and negative characterizations	

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		(i.e., if there are four ratings, two are less than good and two are good or better). The words used to describe these ratings should accurately reflect whether the judgments are less than good or else good or better.	
42	Core	Each of the evaluated performance attributes is assigned a rating using a 4- to 6-point scale for each indicator ratings and a 4- to 6-point scale for each synthesis rating.	.
43	Core	<p>The ratings benchmarks for the project's financial rate of return after-tax (FRR) can be determined by either of the following methods:</p> <p>Good practice (transitional). Using an arbitrary scale, e.g., 20% or more after taxes in real terms for excellent, 10-19.9% for satisfactory, 5-9.9% for partly unsatisfactory, and <5% for unsatisfactory.</p> <p>Best practice. Comparing the re-estimated after-tax FRR in real terms with each project company's weighted average cost of capital at the time the project financing is committed. Although this approach is also subject to problems, it is clearly better than the alternatives. See Attachment 2.</p>	<p>The transitional good practice approach has the benefit of simplicity but does not take into consideration the differing riskiness of different projects as they relate to the financiers' minimum return expectations, which are reflected in the company's weighted average cost of capital. For example, a project expected at the time of evaluation to yield a real, after-tax FRR of, say, 14% in a relatively low risk country with a long-term take-or-pay off-take agreement from a financially strong buyer would normally be rated by any MDB as excellent. In contrast, a project expected at the time of evaluation to yield a real, after-tax FRR of, say, 16% in a relatively high-risk country from the production and export of an agricultural commodity that is subject to wide price fluctuations might nonetheless be rated as just satisfactory. In addition, since interest rates fluctuate, success standards for project returns must reflect.</p> <p>See Exhibit 6.</p>
44	Core	The benchmarks for the project's real economic rate of return (ERR) are set in relation to the MDB's ERR benchmarks used in approving or rejecting projects. The ERR benchmarks may be universal or may vary by country or business sector. They are not, however, the same as the ERRs projected at appraisal for specific projects.	<p>Ideally, the benchmark would be equivalent to the opportunity cost of capital for each country for the period when the project was carried out. This approach, however, would not be practical, since no MDB has attempted to estimate the country-specific opportunity cost of capital on a systematic basis.</p> <p>Several MDBs have not explicitly established <i>ex ante</i> ERR acceptability benchmarks. A CED facing this problem might, until corporate standards are established, adopt an arbitrary scale, e.g., 20% or more for excellent, 10-19.9% for satisfactory, 5-9.9% for partly unsatisfactory, and <5% for unsatisfactory.</p>
45	Core	<p>Good practice. Loan performance benchmarks are set in relation to the MDB's expectations at approval.</p> <p>Best-practice: Loan's net profit contribution (net of transaction and financing costs) is sufficient in relation to the MDB's return on capital employed target</p>	<p>By way of illustration of the good practice standard, IFC rates loans (and related operations) as follows:</p> <ul style="list-style-type: none"> • Excellent. Fully performing and, through sweetener (e.g., income participation), expected to earn significantly more than the without sweetener paid-as-scheduled case. • Satisfactory. (i) loan expected to be repaid as scheduled; (ii) loan is prepaid and IFC has received at least 65% of the interest (net of prepayment penalties received) expected over the original life of the loan; (iii) loan has been

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Std #	Core or Non-Core	Summary of Standard	Comments
			<p>rescheduled and is expected to be repaid as rescheduled with no loss of originally expected income; (iv) all fees on an IFC guarantee are expected to be received and guarantee is not called or has been called but resulting loan is expected to be fully repaid in accordance with the terms of the guarantee agreement; or (v) IFC has not suffered any loss due to non-performance of the swap counterparty under a swap or other risk-management facility.</p> <ul style="list-style-type: none"> Partly unsatisfactory. (i) loan is prepaid and IFC has received less than 65% of the originally expected interest income (net of prepayment penalties received); or (ii) loan has been rescheduled or guarantee has been called and IFC expects to receive sufficient interest income to recover all of its funding cost but less than the full margin originally expected. Unsatisfactory. (i) Loan is in non-accrual status; (ii) IFC has established specific loss reserves; (iii) loan has been rescheduled but IFC does not expect to recover at least 100% of its loan funding cost; (iv) loan has been or is expected to be wholly or partially converted to equity in restructuring of a problem project, or (v) IFC experiences a loss on its guarantee or risk-management facility.
46	Core	<p><i>Good practice.</i> Equity investment rates of return are benchmarked (or discounted if an NPV measure is used) against standards for minimally satisfactory expected performance at approval.</p> <p><i>Best practice 1.</i> Equity investment rates of return are benchmarked (or discounted if an NPV measure is used) to reflect appropriate spreads over actual or notional loan yields for the same credit risk, in line with the policy-defined, at-entry approval standard.</p> <p><i>Best practice 2.</i> Where the MDB's investment features both a loan and an equity investment, their combined net profit contribution (net of transaction and loan financing costs) is sufficient in relation to the MDB's return on capital employed target.</p>	<p>Not relevant for institutions that do not make equity investments.</p> <p>Many institutions have not established policies defining at-entry approval standards for equity investments. A CED facing this problem might, until corporate standards are formally established, seek to determine the minimum general threshold effectively used for equity investments at approval.</p>
47	Core	<p>Ratings of non-quantitative indicators require that relative qualitative judgments be made. The criteria should reflect the extent to which performance has been consistent with the MDB's policies, prescribed standards for corporate sustainability and recognized good-practice</p>	

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<i>Std #</i>	<i>Core or Non-Core</i>	<i>Summary of Standard</i>	<i>Comments</i>
		standards. The criteria for the judgments should be clearly specified in the instructions for the preparation of XASRs and in the CED's annual review.	
48	Core	The synthesis ratings for the three dimension (development or transition outcomes, profitability to the MDB, and the MDB's work quality) reflect summary qualitative performance judgments based on the underlying indicator ratings. They are not simple averages of the indicator ratings.	
		Standard XASR attachments: These attachments provide the basis for review and independent verification of the XASR's judgments and conclusions. They include:	
49	Core	Details of the financial and economic rate of return derivations (with transparent assumptions and cash flow statements).	
50	Core	For each safeguard dimension addressed in the MDB's environmental and social guidelines, a comprehensive summary of environmental, worker health and safety, and social outcome compliance information with sufficient evidence from a field visit and/or client reporting to support the assigned outcome and related MDB work quality ratings.	EBRD has no social mandate and consequently considers that it cannot review social issues.
		Annual Reporting and Process Transparency	
		Annual synthesis reporting: Annual Review	
51	Core	CED prepares an annual review addressed to the MDB's management, staff and Board of Directors. The scope of the annual review includes, <i>inter alia</i> , a synthesis of the CED's validated findings from all XASRs and PERs generated and reviewed during the period covered.	
52	Core	The annual review should provide sufficient information to make the reader aware of possible biases in the sample of projects covered by the annual review. Consequently, the annual review: <ul style="list-style-type: none"> • Describes how the population was identified, how the sample was selected and, if stratification was applied or part of the sampling was non-random, states the rationale. • Reports on the number of XASRs and PERs for the year. • Includes an annex profiling the important characteristics of the evaluated sample against the population (cf. GPS 15). • Reports on the mean number of months between the dates projects reached early operating maturity, as defined in GPS 11 and 12) and 	See Exhibit 2 .

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Std #	Core or Non-Core	Summary of Standard	Comments
		<p>the dates the corresponding XASRs or PERs were issued.</p> <ul style="list-style-type: none"> If less than 100% of the population has been covered, provides information on statistical confidence levels and states explicitly whether reported success rates can be attributed to population. 	
53	Core	The annual review either (i) describes the ratings criteria and benchmarks in an annex or else (ii) refers to a website providing this information.	See Exhibit 7 .
54	Core	The ratings reported should be those of CED.	
55	Core	<p><i>Good practice.</i> CEDs should disclose the differences between CED and operating staff ratings and the materiality of the differences. Where CED ratings are reflected partly in XASR-As and partly in PERs, the CED should disclose the differences between CED and operating staff ratings separately for the XASRs and the PERs. The disclosure is made in global terms, not on a project-by-project basis and is limited to differences in binary outcome and work quality success ratings.</p>	
56	Core	<p><i>Good practice:</i> For each rating dimension and indicator, the annual review shows the <i>proportion of the evaluated sample</i> in each performance-rating category.</p> <p><i>Best practice:</i> The annual review also shows, by dimension, the <i>proportion of total disbursed MDB financing</i> for the sample that is in each performance-rating category.</p>	<p>These results might be reported by saying, e.g., that projects with development outcomes rated as at least <i>mostly successful</i> comprised 64% by number and 68% of the total [MDB's name] financing that was disbursed in the evaluated sample.</p> <p>See Exhibit 8.</p>
57	Non-core	<p><i>Good practice:</i> The annual review analyzes the evaluation results and highlights the findings. In doing so, it notes whether findings are statistically significant.</p> <p><i>Best practice #1:</i> The annual review provides a synthesis description of the ratings patterns and their cross-cutting performance drivers under each indicator.</p> <p><i>Best practice #2:</i> The annual review provides the ratings for the previous few years to show how performance is evolving.</p>	<p>Parts of this GPS may be appropriate only when enough information is available to permit meaningful analysis. It may not be appropriate to include in each annual review.</p> <p>See Exhibit 9.</p>

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<i>Std #</i>	<i>Core or Non-Core</i>	<i>Summary of Standard</i>	<i>Comments</i>
58	Non-core	There is an annex containing a representative sample of XASR or PER abstracts prepared on operations selected from approximately the middle of each development or transition outcome-rating group, illustrating the application of the ratings. There is non-disclosure of any company specifics in the content of this annex to protect the confidentiality of client information. This GPS applies only to MDBs with at least 30 projects evaluated on a rolling three-year basis.	See Exhibit 10 .
59	Non-core	The annual review makes recommendations to Management and the Board for improving the MDB's performance, based on an analysis of (i) the ratings and lessons learned patterns and (ii) other relevant CED evaluation studies and supporting investment portfolio analyses (where deeper evidence is needed on performance hypotheses from XASR and PER patterns). Findings section references are included with each recommendation as its empirical anchor.	See Exhibit 11 .
60	Non-core	Management prepares and submits to the Board, for simultaneous consideration with the annual review in a Board discussion, a memorandum commenting on the annual review's findings and responding to each of its recommendations	See Exhibit 12 .
61	Non-core	MDB maintains a tracking system for recording disposition by Management of each recommendation.	
		<i>Process transparency: Annual Report. (The annual report can be included in the annual review if an MDB wishes to do so.)</i>	
62	CCore	CED reports annually to the MDB's management and Board on the quality and efficacy of the MDB's evaluation system, including the self-evaluation system, any gaps in coverage of the MDB's operations, the work of CED, the generation and application of lessons learned in new operations, and any differences between the MDB's practices and the GPS.	See Exhibit 13 .
		Identification of Lessons, Dissemination, and Ensuring Application of Lessons	
		<i>Identification of lessons:</i>	
63	Non-core	Lessons drawn in annual reviews and special studies should derive in part from the performance rating patterns for the projects reviewed and an	See Exhibit 14 .

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<i>Std #</i>	<i>Core or Non-Core</i>	<i>Summary of Standard</i>	<i>Comments</i>
		analysis of their drivers, particularly in the case of those indicators rated better or worse than satisfactory.	
64	Non-core	Lessons should be concise, prescriptive, and placed in the context of a material issue that was encountered in the evaluation so that its relevance to new operations can be determined easily, on a stand-alone basis.	
65	Non-core	The point of view and selectivity should focus on what the MDB might have done to obtain better results from the operation.	
		<i>Dissemination of findings and lessons:¹⁰</i>	
66	Non-core	<p><i>Good practice:</i> The CED makes available to MDB staff the findings and lessons derived from the MDB’s evaluation work.</p> <p><i>Best practice:</i> The CED makes available to MDB staff a range of user-friendly dissemination products covering the XASR and PER findings, the annual review and CED special studies, e.g., access to the full reports, an on-line searchable lessons retrieval network, electronic notification of new items, and PowerPoint slide-shows of annual review or special study findings.</p>	<p>According to <i>Review of the DAC Principles for Evaluation of Development Assistance – Final Report</i>, February 1998, para. 25, “On the matter of lessons learned from evaluations, it is clear that the users will rarely draw on such material unless required by agency leaders. The demand for the results of evaluations and the lessons they provide in an environment that promotes organizational learning is key. <i>At the same time, the supply of lessons and other knowledge that would benefit operations needs to be easily accessed in usable form.</i> The costs of searching out relevant material from evaluations, even when required, is a major disincentive to the lesson learning process. ‘Just in time’ practices in providing this material can facilitate use.” (italics added) The availability of webpage-based intranet dissemination and searchable databases makes accessing relevant lessons much easier than in the past. It does, however, require the development of an MDB-specific thesaurus of terms and coding of each lesson using it to enable thematic subject searches.</p>
		<i>Ensuring application of lessons:</i>	
67	Non-core	<p><i>Good practice.</i> It is the responsibility of operational department managers to ensure that past lessons have been systematically researched, identified and applied in new operations.</p> <p><i>Best practice #1.</i> Standard processing documentation for new operations includes a prompt, <i>in early stage documents</i>, for relevant past lessons, complemented by a prompt, in final decision-stage documentation, for how the past lessons have been addressed in the appraisal and structuring of the</p>	MC rating requires that MDB’s procedures specifically impose this responsibility.

¹⁰ See also, “Good Practice in Lessons-Learned Dissemination and Application.” <http://workspace.ecgnet.org/ecg/doclib.nsf/calendar?openview&count=1000>

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<i>Std #</i>	<i>Core or Non-Core</i>	<i>Summary of Standard</i>	<i>Comments</i>
		<p>new operation.</p> <p><i>Best practice #2:</i> Procedures call for CED to review documents on new operations with respect to identification of relevant lessons from evaluated operations.</p>	
68	Non-core	In its annual evaluation process report, CED reviews and reports to management and the Board the evidence available for judging the extent to which lessons are being incorporated in new operations.	
69	Non-core	<p><i>Good practice.</i> Internal corporate reporting (up to Board level) is broadly aligned with the evaluative framework.</p> <p><i>Best practice #1:</i> Reports, from project-level to department- and corporate-level, cover development or transition outcome, investment outcome and MDB work quality.</p> <p><i>Best practice #2.</i> Reports apply coherent and consistent benchmarks across projects and at all stages of the project cycle (appraisal, supervision/monitoring and evaluation).</p>	<p>Similar to GPS 3, but GPS 3 relates to input by CED, and GPS 70 relates to outcomes and internal coherence.</p> <p>This integration of evaluative scope, measurement standards, findings and reporting with corporate- and unit-level portfolio reporting caters for the results-based management principle and reality that “what gets measured, gets done,” and that properly “what gets done, gets measured coherently and consistently.” Without this integration, a disconnect is likely between predominant operational and career incentives and application of evaluation lessons for getting better outcomes.</p> <p>See Exhibit 15.</p>
		<i>Disclosure</i>	
70	Non-core	To protect client company confidentiality, the candor needed for effective corporate learning, and the risk to the MDB's credit rating that partial release of investment portfolio data (and related standards and benchmarks) might entail, the MDB does not disclose individual evaluation reports or the full text of the CED's annual review.	
71	Non-core	<p><i>Good practice:</i> The MDB's disclosure policy for evaluation products should be explicit, should be consistent with the MDB's general disclosure policy, and should cover all evaluation products.</p> <p><i>Best practice:</i> The MDB's disclosure policy is disclosed via the CED's web page, specifically noting any exceptions applicable to evaluation</p>	

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<i>Std #</i>	<i>Core or Non-Core</i>	<i>Summary of Standard</i>	<i>Comments</i>
72	Non-core	<p>reports.</p> <p><i>Good practice:</i> The MDB includes an accurate summary of CED's major annual review findings in its Annual Report.</p> <p><i>Best practice:</i> CED prepares and posts on the MDB's external website an abstract of its annual review that accurately summarizes its essential findings, including the outcome and work quality ratings profiles, sampling representativeness, ratings criteria, benchmarks, and consistency with core GPS.</p>	See Exhibit 16 .

LIST OF EXHIBITS

Examples of Selected Documentation¹¹

(illustrative only and not intended to be interpreted as the only good practice)

- Exhibit 1:** OEG Terms of Reference (approved by the Board September 2002)
- Exhibit 2:** XPSRs, Sample Selection and Representativeness
- Exhibit 3a:** Non-Financial Markets Instructions (for XPSRs)
- Exhibit 3b:** XPSR Program Overview
- Exhibit 3c:** Getting There in Nine Steps – 2002
- Exhibit 4:** Sample XPSR
- Exhibit 5:** Memo RE: CY2001 XPSR Program, OEG's Final Ratings for the Annual Review of IFC's Evaluation Findings
- Exhibit 6:** WACC Benchmarks, 2003
- Exhibit 7:** Guidelines for Performance Ratings
- Exhibit 8:** Summary of XPSR Performance Ratings, from the 2002 Annual Review
- Exhibit 9:** Annual Ratings Trends from 1996 – 2001
- Exhibit 10:** Abstracts of Selected XPSRs
- Exhibit 11:** Recommendations for Improving IFC's Work Quality
- Exhibit 12:** Management Response: Annual Review FY2002
- Exhibit 13:** Table of Contents, Annual Review 2002
- Exhibit 14:** IFC Lessons Learned, XASR Examples
- Exhibit 15:** Department Scorecards
- Exhibit 16:** OEG Findings, Annual review, April 2003

¹¹ These illustrative exhibits are provided by the Operations Evaluation Group (OEG) of the International Finance Corporation, and are current as of May 2003. **XPSR** = Expanded Project Supervision Report

Glossary

Annual report	An annual report prepared by the CED for the MDB's board of directors and management covering the quality and efficacy of the MDB's evaluation system, including the self-evaluation system, any gaps in coverage of the MDB's operations, the work of CED, the generation and application of lessons learned in new operations, and any differences between the MDB's practices and the GPS-IO.
Annual review	An annual review prepared by the CED for the MDB's board of directors and management comprising, <i>inter alia</i> , a synthesis of the CED's validated findings from all XASRs and PERs generated and reviewed during the period covered.
Best-practice evaluation standards	Standards that are more detailed than the good-practice standards and are desirable but not essential to have a satisfactory evaluation system. Cf. good-practice evaluation standards.
Cancelled investment	An undisbursed, committed balance of an equity investment or loan, cancelled by mutual consent of the MDB and a project company. Cf. dropped investment.
CED	See Central Evaluation Department
Central Evaluation Department	The corporate unit charged with supporting the self-evaluation system for investment operations and reviewing its main products --the XASRs--in addition to producing annual reviews of the MDB's evaluation results, other independent evaluation studies and related dissemination responsibilities.
Closed investment	A disbursed investment that has been fully repaid, sold, or written off.
The company	Generally, the legal entity owning and implementing the project; the MDB's investment counterparty. For financial markets operations, the company is (a) the financial intermediary in the case of credit lines, bank equity investments, leasing companies, etc. or (b) the fund management company (as distinct from the normally separately owned investment fund itself) in the case of funds.
Core evaluation standards	The standards necessary to permit comparability of operational results among the MDBs, as prescribed by the Development Committee. Cf. non-core evaluation standards.

Disclosure	The systematic distribution of evaluation findings through various media (including mainly the MDB’s external website) to the public at large, normally subject to certain restrictions specified in a Board-approved disclosure policy.
Dissemination	The systematic distribution of evaluation findings through various media within the MDB, generally without restriction as to contents, with the aim of promoting awareness and reinforcement of corporate objectives, success standards, accountability, and use of lessons for improved results.
Dropped investment, or droppage	A proposed investment approved by the MDB’s Board of Directors that has failed to become a signed agreement. Cf. cancelled investment.
Early operating maturity	<ul style="list-style-type: none"> • For an investment other than a financial markets operation with identifiable sub-projects, the year during which (a) the project financed will have been substantially completed, (b) the project financed will have generated at least 18 months of operating revenues for the company and (c) the MDB will have received at least one set of audited annual financial statements covering at least 12 months of operating revenues generated by the project. • For financial markets operations with identifiable sub-projects financed by the MDB’s investment: <ul style="list-style-type: none"> ○ For lending operations: at least 18 months shall have elapsed after the MDB’s final disbursement of its loan. ○ For investment funds: the projects financed will have generated at least 12 months of operating revenues.
Expanded Annual Supervision Report	A standard, one-time annual supervision report for the year when the project reaches early operating maturity with an attached evaluative addendum (<i>expanded</i> refers to the evaluative addendum), prepared on investments selected for evaluation by the CED. The addendum is a concise five-to-ten page document, executed in a standard template according to a set of instructions prepared by the CED, and featuring (1) analysis of specified performance dimensions with rated indicators and lessons learned for avoiding outcome shortfalls and getting better results in both future and portfolio operations. CED-verified XASR findings and performance ratings form the core of the CED’s annual synthesis report (the annual review).

Good-practice evaluation standards	The key principles that any development institution that finances the private sector should follow if it is to have a satisfactory evaluation system. Cf. best-practice standards.
GPS-IO	Good Practice Standards for Evaluation of Investment Operations
Gross contribution	The gross revenues generated for an MDB by an investment before deducting associated costs. Cf. net profit contribution.
Independent evaluation	Evaluations undertaken by the MDB's CED, including Performance Evaluation Reports (PERs), XASR Assessments (XASR-As), special studies and annual reviews, the latter based largely or in part upon the findings of CED-verified XASRs, PERs and relevant portfolio performance data. (Sometimes referred to as direct evaluation.) Cf. self-evaluation.
The investment	The MDB's financing instrument specific to the operation being evaluated. Investments mainly consist of loans, loan guarantees, quasi-equity and equity investments.
Net profit contribution	The net profit earned by an MDB on an investment after deducting financial and transaction costs. Cf. gross profit contribution.
Non-core evaluation standards	Standards that are not needed for comparability of evaluation results among the MDBs but are nonetheless important to help improve accountability and learning within each institution.
The operation	The MDB's objectives, activities and results in making and administering its investment as partial financing of the company's project.
PER	See Performance Evaluation Report
Performance dimensions	The three basic dimensions subject to evaluation judgments, i.e., the project's development or transition outcome, the profitability of the investment to the MDB, and the MDB's work quality.
Performance indicators	The specific indicators providing the basis for the judgments on the three performance dimensions.
Performance Evaluation Report	An evaluation report prepared by the CED on an individual investment operation. It has the same scope and applies the same evaluative research standards (e.g., field visit-based), guidelines, measures and ratings standards as the XASR.
The project	Generally, the company's capital project or program and related business activity that have been partially financed by the MDB's investment selected for evaluation. In financial markets operations, the project

Attachment III

	generally refers to the financial intermediary's lending or investment program that is partially financed by the MDB.
Self-evaluation	Evaluation of an investment operation (through an Expanded Annual Supervision Report) that is undertaken by the staff of the MDB's operational department that has day-to-day, front-line responsibility and accountability for monitoring, administering and reporting on the investment operation that is being evaluated. (Sometimes referred to as indirect evaluation.)
SMEs	Small- and medium-scale enterprises
WACC	See weighted average cost of capital
Weighted average cost of capital	The average of the cost of a company's debt and equity financing weighted by their respective usage. See Attachment 4.
WGPSE	Working Group for Private Sector Evaluation of the Evaluation Cooperation Group
XASR	See Expanded Annual Supervision Report
XASR-A	See XASR Assessment
XASR Assessment	CED's instrument for conveying the findings of its desk review of each XASR. Its scope includes a judgment of the XASR's quality (responsiveness to scope guidelines, research depth, application of guideline-prescribed standards, and objectivity), appropriateness of assigned performance ratings, appropriateness and completeness of identified lessons, and issues for discussion in a Management-led review meeting (if CED recommends the XASR for such a review).

Comparable Terms Used in Each Member MDB

Memorandum Term	Central Evaluation Department	Expanded Annual Supervision Report	On-line Lessons Database	Performance Evaluation Report	XASR Assessment
Abbreviation	CED	XASR	LRN	PER	XASR-A
AfDB term	Operations Evaluation Department	None	None for private sector projects (intended to be included in the actual retrieval system)	Project Performance Evaluation Report	None
Abbreviation	OPEV	--	SPEI	PPER	--
AsDB term	Operations Evaluation Office	None	None for private sector projects	Project Performance Audit Report	None
Abbreviation	OEO	--	--	PPAR	--
EBRD term	Project Evaluation Department	Expanded Monitoring Report	Lessons Learned Database	Operation Performance Evaluation Review	XMR Assessment
Abbreviation	PED	XMR	LLD	OPER	none
EIB term	Operations Evaluation	Scorecard / Project Completion Report (<i>under review</i>)	None	In-depth operations evaluation	<i>under review</i>
Abbreviation	EV	MR/ICR	--	ESR	--
IDB term	<i>under review</i>	<i>under review</i>	<i>under review</i>	<i>under review</i>	<i>under review</i>
Abbreviation					
IIC term	Office of Evaluation & Oversight	Expanded Annual Supervision Report	Lessons Learned Database	Not applicable	Project Evaluation Note
Abbreviation	OVE	XASR	LRD	Not applicable	PEN
IFC term	Operations Evaluation Group	Expanded Project Supervision Report	Lessons Retrieval Network	None	XPSR Evaluative Note
Abbreviation	OEG	XPSR	LRN	--	EvNote
MIGA term	Operations Evaluation Unit	<i>under review</i>	None	Evaluation of Guarantee Projects	None
Abbreviation	OEU		--	--	

Weighted Average Cost of Capital in Determining Benchmarks for Rating Real After-tax Financial Rate of Return (FRR)¹²

Theoretical framework

1. Financial and economic theory holds that a firm must expect an after-tax financial rate of return (FRR) on the funds it invests in its capital projects that is at least sufficient to induce investors to purchase and hold the firm's debt and equity.¹³ Thus, the threshold satisfactory project FRR must be sufficient to meet the company financiers' inflation-adjusted, risk-weighted minimum return requirements.

2. Assuming that project business success is rated on a four-level scale (unsatisfactory, partly unsatisfactory, satisfactory, and excellent), three benchmarks are required. Conceptually, the lower benchmark for a satisfactory rating should be the FRR that a project company's financiers are likely to view as minimally satisfactory in rewarding them for their country, company, and instrument risk-weighted opportunity costs. The lower benchmark of the partly unsatisfactory FRR range should be the rate below which the equity investors as a group are almost certainly likely to regret having made their investments, taking into account their risk-weighted opportunity costs and their own weighted average costs of capital. The benchmark for an excellent FRR should be the rate above which a project's contribution to its company's profitability is sufficient to provide its equity investors with returns that are clearly well above their varying risk-weighted opportunity costs and costs of capital.

3. The minimum real return requirement is the weighted average after-tax cost to the company of the lenders' loan yields and the equity investors' minimally acceptable returns, adjusted for inflation, i.e., the project company's weighted average cost of capital (WACC). The WACC, thus, defines the minimum FRR for a satisfactory project business success rating.

IFC's Application of this framework in estimating the WACC

4. To estimate WACCs for each company evaluated, IFC's Operations Evaluation Group initially developed a model based on the company's cash flows as projected at approval, the internal rate of return on the loan, and the equity return deemed satisfactory for the investment.

¹² The first six paragraphs are adapted from IFC, *Annual Review of IFC's Evaluation Findings: FY98*, December 1998, Annex 7.

¹³ The application to start-up companies is straightforward. The relationship between investor return requirements and an existing company's expansion project FRR is more diffuse, since they will base their financing decisions on the company's overall "with project" prospects inclusive of existing operations. However, even in the case of a corporate financing for a multi-project capital program of an existing publicly traded company, before financing or approving it, the company's board and lenders must establish to their satisfaction that the capital program will make a sufficient contribution to the company's "with project" debt service coverage and future earnings relative to the risk it adds to the company's financial condition and existing earnings prospects. Normally, that assessment is made on a "with program" vs. "without program", incremental after-tax cash flow and net income basis.

5. Because of the complexity of this approach and the time needed to prepare the necessary worksheets, OEG has now adopted a shortcut for estimating the WACC. Based on the detailed estimates made for a large number of projects, OEG found that, in 80% of the cases, the *nominal* fixed rate equivalent interest rate that would have applied to an IFC US dollar loan at the time of approval of an investment was within ± 50 basis points of the after-tax WACC *in real terms* calculated by applying the formula, including a 300 basis point spread to its equity investors over the average internal rate of return on its debt financing. OEG, thus, defines the real WACC for a project as being equivalent to the nominal fixed rate equivalent interest rate that would have applied to an IFC US dollar loan at the time of approval.¹⁴

6. Based on the theoretical framework outlined in para. 2, OEG benchmarks are now as follows as follows:

Excellent	FRR exceeds WACC by 250 bp or more. At this level, the FRR would at least double the equity investors' spread over the company's borrowing cost.
Satisfactory	FRR between WACC and WACC plus 249 bp
Partly unsatisfactory	FRR less than WACC but equal to or greater than WACC minus 200 bp
Unsatisfactory	FRR equivalent to or less than WACC minus 200 bp. At this level, the FRR would provide a nominal equity yield equal to or less than the company's nominal borrowing cost.

BRIEF CRITIQUE

7. Clearly, basing project business success ratings on the WACC is better than the alternatives. Nevertheless, this approach can also be criticized.

- The WACC is typically determined by (a) calculating the relative weight of the company's equity and debt financing at market prices (not face values), (b) calculating the cost of equity by multiplying the relative weight of the company's equity by the risk-free interest rate plus the product of the stock's *Beta* and the market risk premium, (c) calculating the cost of the loan financing by multiplying the relative weight of the company's debt financing by the net of tax interest rate, and (d) adding the cost of the equity and loan financing. The market provides an objective basis for estimating these parameters for a publicly traded company. Estimates for a company that is not publicly traded are inherently less reliable.
- The rationale for setting the benchmark between satisfactory and excellent outcomes at 250 bp above the WACC and the rationale for setting the benchmark between partly unsatisfactory and unsatisfactory outcomes at 200 bp below the WACC are arbitrary. Some investors may consider an equity return 600 bp over the yield on fixed rate borrowings by the same company as excellent, but others may not. Similarly, some investors may consider an equity return a few basis points above the company's nominal long-term borrowing cost as satisfactory, but others may not.
- The OEG approach assumes that the project-specific interest rate adequately takes into consideration country, business sector, financial structure, and other risks. This assumption may not be true for the debt financing but not necessarily for the equity.

¹⁴ Not all MDB's determine the fixed rate equivalent interest rate when they approve loans. They can, however, retrieve this information from Bloomberg. The command "USSW5 Currency Go" will provide 5-year swap rates going back ten or more years. The command "EUSA5 Currency Go" will provide 5-year swap rates going back to January 1999. Swap rates for other currencies can be found by using the "Help" function.

For example, the OEG approach does not take into consideration the influence of security or guarantees on the project-specific interest rate. Similarly, high leverage is likely to increase the riskiness of the equity to a greater extent than the riskiness of the debt financing.

- The OEG approach is based on the finding that the shortcut yielded similar results for 80% of the projects reviewed. This test was based on the projects evaluated by OEG over a 2-year period. It is not clear whether it would apply equally well to other periods, when economic conditions may have differed, or to other MDBs, which may have different interest rate policies. Moreover, the results differed by more than 50 bp for 20% of the projects reviewed. The ratings on these projects may distort reported findings and the lessons drawn from looking at successful and unsuccessful projects.¹⁵
- The OEG approach establishes the WACC based on US dollar interest rates. This approach may not be appropriate for (a) an MDB that operates in terms of Euros, (b) companies whose owners and creditors are mainly local and, hence, look to returns in local currency terms, or (c) companies whose debts are denominated mainly in a currency with materially lower interest rates, e.g., Japanese yen, or that benefit from subsidized public sector financing.¹⁶

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¹⁵ According to OEG, the materiality of any such distortion is mitigated to a large extent because the success rates used in the annual review's analysis and reporting (such as for win-win outcomes and relative performance of strategic groups) are based upon binary groupings of the six-rating development outcome scale (*viz.*, mostly successful or better). Moreover, OEG points out that the project's business success is one of four ratings from which the development outcome is synthesized and that proximity to the WACC cutoff is taken into account at the margin in determining the synthesis development outcome rating.

¹⁶ According to OEG, it overcomes these problems by translating the non-dollar currencies into dollars at the relevant forward rates. For local currencies, the assumption is that sophisticated investors in, and lenders to, large project companies will price their local currency loans taking into account currency depreciation risk, such that the *de facto* dollar equivalent yield will equalize. The same logic holds for the investors.

VOLUME II: LIST OF EXHIBITS

Examples of Selected Documentation¹⁷

(illustrative only and not intended to be interpreted as the only good practice)

- Exhibit 1:** OEG Terms of Reference (approved by the Board September 2002)
- Exhibit 2:** XPSRs, Sample Selection and Representativeness
- Exhibit 3a:** Non-Financial Markets Instructions (for XPSRs)
- Exhibit 3b:** XPSR Program Overview
- Exhibit 3c:** Getting There in Nine Steps – 2002
- Exhibit 4:** Sample XPSR
- Exhibit 5:** Memo RE: CY2001 XPSR Program, OEG's Final Ratings for the Annual Review of IFC's Evaluation Findings
- Exhibit 6:** WACC Benchmarks, 2003
- Exhibit 7:** Guidelines for Performance Ratings
- Exhibit 8:** Summary of XPSR Performance Ratings, from the 2002 Annual Review
- Exhibit 9:** Annual Ratings Trends from 1996 – 2001
- Exhibit 10:** Abstracts of Selected XPSRs
- Exhibit 11:** Recommendations for Improving IFC's Work Quality
- Exhibit 12:** Management Response: Annual Review FY2002
- Exhibit 13:** Table of Contents, Annual Review 2002
- Exhibit 14:** IFC Lessons Learned, XASR Examples
- Exhibit 15:** Department Scorecards
- Exhibit 16:** OEG Findings, Annual review, April 2003

¹⁷ These illustrative exhibits are provided by the Operations Evaluation Group (OEG) of the International Finance Corporation, and are current as of May 2003. **XPSR** = Expanded Project Supervision Report