STUDY ON EVALUATING THE PROCESS AND PORTFOLIO PERFORMANCE OF THE PRIVATE SECTOR OPERATIONS OF THE BANK

OPERATIONS EVALUATION DEPARTMENT (OPEV)

12 February 2004
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This report was prepared by T&B Consult Ltd. (Consulting Firm) under the supervision of Mr. M. MANAI, Chief Evaluation Officer, and Mrs. G. HALL-YIRGA, Principal Evaluation Officer. Any further matters relating to this report may be referred to Mr. Getinet W. GIORGIS, Director, Operations Evaluation Department on extension 2041 or Mrs. Gennet Yirga-Hall on extension 2263
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ABBREVIATIONS

ADB  African Development Bank (or the Bank)
CDC  Commonwealth Development Corporation
CLEG Legal Council of the Bank
CODE Committee for Development Effectiveness
ECG Evaluation Co-operation Group
EIB European Investment Bank
GPS Good Practices Standards
IBRD International Bank for Reconstruction and Development
IFI Intermediary Financial Institution
IP Investment Proposal
LoC Lines of Credit
MDB Multilateral Development Banks
OESU Operations Environmental and Social Unit
OPEV Operations Evaluation Department
OPSD Operations Private Sector Department
PCR Project Completion Report
PCR-E Project Completion Report Evaluation Note
PPER Project Performance Evaluation Report
RMC Regional Member Country
ToR Terms of Reference
UA Unit of Account
XASR Expanded Annual Supervision Report
XASR-A XASR Assessment

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The consultants wish to gratefully acknowledge the support and guidance of the Operations Evaluation Department’s experts Mr. M. Manai and Ms. G. Yirga-Hall. The co-operation of OPSD in general and Mr. S. French and Mr. A. Traore in particular has been very useful in carrying out the evaluation.
1. EXECUTIVE SUMMARY

1. In September 2001 the Board of the ADB decided to conduct an evaluation of the Bank’s Private Sector Policy and Portfolio Performance and commissioned the Committee for Development Effectiveness (CODE) to launch an evaluation study in this regard.

2. The study should be seen in the context of the present efforts by the Evaluation Cooperation Group (ECG) of the Multilateral Development Banks (MDBs) to develop Good Practices Standards (GPS) for Evaluation of Private Sector Investment Operations to be applied by all MDBs in order to make evaluation results comparable and to ensure that their findings are properly translated into operational standards.

3. The expected results from the evaluation study are to draw lessons from experience to-date, map the way forward to reorient the policies and operational guidelines as well as the processes in effectively carrying out future private sector operations of the Bank, and to develop monitoring and evaluation guidelines for ADB’s private sector operations.

4. The Terms of Reference (ToR) for the evaluation study indicates that the study shall be based on desk review, interviews of ADB staff, and selected field missions. The final sample of field missions covers eight projects in six countries, three main types of operation (direct project loans, lines of credit, and equity investment), and includes projects perceived by the Bank as a success, on watch list, or a problem. While the sample is balanced based on the said parameters, it has at the same time a bias towards the relatively well functioning part of the portfolio by leaving out outright project failures. However, documents in the Archives were reviewed to have an impression of the dynamics surrounding them.

5. Based on the ToR as well as the ECG GPS the study team’s project assessments have in case of Direct Project Loans been structured according to the following four performance dimensions:

   **Project outcome: Results on the ground**
   1. Business success
   2. Development outcome
      - ADB’s involvement in project
   3. ADB investment profitability
   4. ADB’s operational effectiveness

6. As regard to Lines of Credit, where the Bank has limited access to information about the sub-projects of the intermediary financial institution, the assessment of project outcome is confined to the Bank’s additionality and catalytic role as regards loan portfolio and operations of the borrower.

7. Based on the findings from the desk study, interviews and field missions the team has critically examined the degree of compatibility between existing Bank guidelines and the ECG Good-Practices Standards for Evaluation of Private Sector Investment Operation. Subsequently, based on the findings of the evaluation study, the team has critically examined the ECG GPS indicators and recommended how to adjust them for use by the Bank.

8. Finally, and taking into account the findings of the study, the team has further drafted a set of Monitoring and Evaluation Guidelines, which is tailor made to the perceived needs of the Bank.
1. INTRODUCTION

1.1 Background

1.1.1 Private sector operations in the African Development Bank, hereafter the Bank or ADB, started in the early part of 1990. In September 2001 the Board of the ADB decided to conduct an evaluation of the Bank’s Private Sector Policy and Portfolio Performance and commissioned the Committee for Development Effectiveness (CODE) to launch an evaluation study in this regard.

1.1.2 To implement its mandates, the Private Sector Department of the Bank (OPSD) has developed policies and guidelines over the years. The evaluation study shall assess the adequacy or otherwise of the policies, strategies and guidelines in translating the current vision of the Bank, which emphasises increased participation of the private sector and poverty reduction. It shall also assess how effectively the policies are being implemented. Issues such as additionality and complementarity as well as development impact would also be addressed to find out if these aspects were clearly stipulated in the policies and strategies of the private sector operations of the Bank. Adequacy of the operational guidelines and processes applied in implementing the policies and strategies will also be reviewed. The policies and operational guidelines of other multilateral financial institutions will be examined for purpose of comparison and make appropriate recommendations.

1.1.3 The evaluation study should be seen in the context of the present efforts by the Evaluation Co-operation Group (ECG) of the Multilateral Development Banks (MDBs) to develop Good Practices Standards (GPS) for Evaluation of Private Sector Investment Operations to be applied by all MDBs in order to make evaluation results comparable and to ensure that their findings are properly translated into operational standards.

1.1.4 On this background, Terms of Reference (ToR) has been prepared by the Bank's Operations Evaluation Department (OPEV) in consultation with the OPSD for the purpose of evaluating the Private Sector Department's performance with respect to implementing its policy, the review process of the project cycle, and the management and performance of the portfolio. Any strengths or shortcomings shall be underscored and recommendations and action plans formulated in order to better address the current Bank vision through private sector operations.

1.1.5 The ToR indicates that the evaluation study shall be based on desk review, interviews in the Bank, and selected field missions. The expected results from the evaluation are to draw lessons from experience to-date, map the way forward to reorient the policies and operational guidelines as well as the processes in effectively carrying out future private sector operations of the Bank, and to develop monitoring and evaluation guidelines for ADB’s private sector operations.

1.1.6 Within this setting, the Danish consulting firm T&B Consult Ltd. has been recruited to carry out the evaluation study under the overall supervision of OPEV. During 1 July - 31 October 2002, a team from T&B Consult Ltd. made up of Mr. Jens Erik Torp (team leader and expert in operational, financial and risk management of private sector portfolios) and Ms. Henriette Bonnevie (private sector expert in policy and strategy) have undertaken the evaluation study by reviewing available documents within and outside the Bank, conducting interviews with Bank staff, testing the team's methodology through a pilot case-study, and subsequently undertaking a number of field missions. The consultant’s Draft Report was ready by December 2002. However, as a result of the relocation of the Bank’s HQ from Abdijan to Tunis, it was only possible for the consultant to obtain
comments from the Bank to the Draft Report during a visit to the Bank in October 2003. The comments obtained during the said visit have been duly reflected upon and where appropriately integrated into this Final Report.

1.2 **Methodology and Scope of the Study**

1.2.1 **Desk Review, Interviews and Field Missions**

1.2.1.1 The TOR indicates that the study shall be based on desk review, interviews of ADB staff, and selected field missions.

1.2.1.2 The study team has thus reviewed available documents within and outside the Bank and supplemented this information with interviews of OPSD staff, elected officers, and some Board members to fully trace the review process covering the investment cycle and the strengths and constraints in effectively executing the private sector department's mandates.

1.2.1.3 With regard to field missions the team has received a preliminary list of six operations selected by the Bank. However, it was agreed during contract negotiations that the final selection of case studies only be made at the end of the desk study thus permitting that either the initial selection of cases to be confirmed or possibly to be adjusted as a result of the outcome of the desk study.

1.2.1.4 The initial sample developed by OPSD and OPEV appeared, broadly speaking, to be representative for the private sector operations of the ADB in the sense that it covered: (i) various sectors, i.e. financial intermediaries, physical infrastructure, and manufacturing (ii) geographical distribution covering small and large investment countries, (iii) various instruments, i.e. direct project loans, equity investments, and lines of credits, and (iv) different type of perceived performance, including a problem project (Company B), a success story (Company F), and a project on "watch list" (Company E).

<table>
<thead>
<tr>
<th>Project Code</th>
<th>Country Code</th>
<th>Date Approved</th>
<th>Sector</th>
</tr>
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<tbody>
<tr>
<td>A</td>
<td>I</td>
<td>11.11.92.</td>
<td>Industry- Manufacturing</td>
</tr>
<tr>
<td>B</td>
<td>II</td>
<td>22.09.95</td>
<td>Industry – Manufacturing</td>
</tr>
<tr>
<td>C</td>
<td>III</td>
<td>30.10.96.</td>
<td>Finance – Investment Fund</td>
</tr>
<tr>
<td>D</td>
<td>III</td>
<td>22.01.97.</td>
<td>Finance – Equity Investment</td>
</tr>
<tr>
<td>E</td>
<td>IV</td>
<td>08.12.97.</td>
<td>Industry-Manufacturing</td>
</tr>
<tr>
<td>F</td>
<td>V</td>
<td>11.12.98.</td>
<td>Infrastructure – Power</td>
</tr>
<tr>
<td>G</td>
<td>VI</td>
<td>08.12.99.</td>
<td>Finance -Line of Credit</td>
</tr>
<tr>
<td>H</td>
<td>VI</td>
<td>18.10.01.</td>
<td>Finance - Line of Credit</td>
</tr>
</tbody>
</table>

Source: Evaluation Study Findings

1.2.1.5 However, following discussions with representatives of OPEV and OPSD, it was agreed further to include Company A, on the ground that it represents the only private sector Bank project for which a Project Completion Report so far has been elaborated and since it is one of the early private sector projects of the Bank. It was also agreed to include an additional line of credit in the sample, in order to assure that two examples of this instrument, which has recently gained importance in the ADB portfolio, would become object of study.
1.2.1.6 The team has noted that no outright project failures were included in the suggested list of projects, although a number of these projects do exist. However, the team was given access to the files from some of these projects, and has thus been able to get an impression of the dynamics surrounding them although no direct interviews with promoters of these failed projects have been undertaken.

1.2.2 Selection of Assessment Models and Indicators

1.2.2.1 Based on the ToR, the team is required to assess the outcomes or expected outcomes of eight performance aspects during the performance evaluation of the selected portfolios\(^1\). Each of the said aspects shall be assessed individually and scored from 1 to 4 (which reflects ratings from Highly Unsatisfactory [1], Unsatisfactory [2], Satisfactory [3] to Highly Satisfactory [4]).

1.2.2.2 Although current OPSD supervision according to the ToR does not cover development impact, the Study should see to it to what extent the Bank’s involvement in private sector financing have contributed to development impact of the concerned RMCs and accordingly rated.

1.2.2.3 Further, the ToR suggests that the team might want to develop an alternative evaluation benchmarks and scoring system after having reviewed the ECG Good Practices document. This latter option is particularly pertinent, since the main Multilateral Development Banks have created an Evaluation Co-operation Group (MDB-ECG), which sets up Good-Practice Standards for Evaluation of Private Sector Investment Operations. The ADB has committed itself to follow these guidelines, exposed in the document MDB-ECG Good-Practice Standards for Evaluation of Private Sector Investment Operations (April 2001)\(^2\).

1.2.2.4 The team has therefore sought to find a way to integrate the requirements in the ToR with the ECG GPS and noticed that the evaluative scope presented in the ECG guidelines actually takes into account all the eight aspects mentioned in the ToR. It furthermore provides very firm criteria on how to conduct performance rating to arrive at an overall score. In the said document the ECG recommends that an MDB self evaluation of projects includes, as a minimum, the project’s development impacts (the project’s mission-relevant results); the MDB investment’s profitability (contribution to its corporate profitability objective); and the MDB’s operational effectiveness (execution quality).

1.2.2.5 Reflecting on this recommendation the study team has noted that the ECG has grouped the project’s business success together with the broader development outcomes of the project, while the present practice of the ADB in monitoring is to give emphasis on the projects’ business success and to give limited emphasis to its broader development outcome. However, taking into account the need to examine the development outcome of the projects in detail, as in the TOR, the team has within its methodological approach decided to subdivide the ECG’s notion of a “project’s development impact” and examine the two dimensions of "development outcome" and the "project’s business success" separately.

\(^1\) The eight aspects appear in Annex I, Table 7, below.

\(^2\) A Second Edition of the MDB-ECG Good-Practice Standards for Evaluation of Private Sector Investment Operations was issued May 1, 2003. However, since the Consultant’s Draft Study Report was submitted in December 2002, and the changes from the First to the Second Edition have only limited consequence for this study, references to the First Edition are maintained in the text.
1.2.2.6 The Portfolio Assessment Model developed based on these methodological considerations and applied by the study team in case of Direct Project Loans is depicted in Figure 1 below.

**Figure 1 - Assessment Model Developed by Study Team for Direct Project Loans**

![Assessment Model Diagram]

*Note:* This model is designed for Direct Project Loans, i.e. loans for manufacturing as well as infrastructure projects. *Source:* Developed by Evaluation Study Team – building on a somewhat similar approach applied by IFC (IFC, 2002)

1.2.2.7 The Assessment Model for Direct Project Loans builds directly on the “building blocks” recommended by ECG, while incorporating the eight aspects mentioned in the ToR. For each of the criteria within these building blocks, a range of indicators are proposed by ECG.

1.2.2.8 Taking into account the differences between two of the major instruments applied by the OPSD, i.e. Direct Project Loans and Lines of Credit (LoC), the study team found it relevant to develop a separate Assessment Model for Lines of Credit. LoC are given to Intermediary Financial Institutions (IFI) and the focus in the assessment model chosen is on the impact of the credit on the composition of the borrower’s loan portfolio (*investments additionality*) and on the operational policies of the IFI (*catalytic effect* on borrower’s operations). Since, only very limited information about sub-projects financed by the IFIs is available to the Bank, development outcome and business success of sub-projects are not included in the Assessment Model for Lines of Credit.
In order to clarify further the meaning of the concepts of Investment Additionality and Catalytic Effect they can for the purpose of the LoC portfolio assessment be defined as follows:

*Investment Additionality* refers to the influence the ADB Line of Credit provided has on the borrower’s ability to extend its reach. In other words, if an ADB investment provides no or little additionality it means for instance that the final borrowers would have been provided with loans by the borrower bank regardless whether or not the Bank had provided the line of credit in question. In contrast, if the provision of a line of credit by ADB enables the borrower bank to lend money to firms/projects that would not have been possible had the line of credit not been provided, or if for instance the provision of the line of credit means that the borrower bank is enabled to extend its network of branches geographically and through that reach clients that would otherwise not have been provided with borrowing possibilities, then the additionality is high.
Catalytic Effect on Borrower Operations refers to the benign effects ADB involvement may have on borrower operations. This means that Bank involvement may have a high catalytic effect if for instance it results in positive changes in borrower operational policies or in general improvements in borrower operations. In contrast, no or little catalytic effect from ADB involvement is the result if for instance the Bank limits its interaction to the borrower by only providing the line of credit.

1.2.3 Application of ECG GPS at ADB

1.2.3.1 Based on the findings from the desk study, interviews and field missions the team has then critically examined the degree of compatibility between existing Bank guidelines and the ECG Good-Practices Standards for Evaluation of Private Sector Investment Operations. Subsequently, the team has critically examined the ECG GPS indicators and recommended how to adjust them for use by the Bank.

1.2.3.2 The methodology of the study thus includes comparison and examination of the degree of compatibility between the existing monitoring and evaluation guidelines and ECG GPS as well as recommendations of how best the latter could be tailored for use by OPSD and OPEV.

1.2.3.3 Based on its findings the team has further drafted some Monitoring and Evaluation Guidelines, which are based on the findings from the Study Report and is tailor made to the perceived needs of the Bank.

1.3 Structure of the Report

1.3.1 The general findings of the team as well as lessons learnt and recommendations are reported in the main text of this Evaluation Study Report. In addition, as annexes to the report are included evaluation indicators, examples of project assessment outcomes, comparisons and analyses of existing guidelines, and a list of Bank, MDB, and IFC documents consulted.

1.3.2 It has been agreed with OPEV that the Study report should be short and preferably not exceed 30 pages with a minimum of annexes. Thus, a number of the intermediary working papers and questionnaires developed by the team are not included in this draft report. The most important documents left out are the full (80 pages questionnaire) for financial and non-financial projects used by the team during field missions, the Inception Note reporting on the desk study, and six Aide Memoires reporting on the team’s findings from each of the six country visited.

3 These comparisons and related conclusions can be found in Table 8 and Table 9 in Annex 6.3.
4 The team’s recommendations on how to apply the ECG indicators at ADB can be found in Table 10, Annex 6.4.

T&B Consult: Manual, Monitoring and Evaluation Guidelines, Private Sector Projects Funded by ADB. (Copenhagen, October, 2003.)
2. **MAIN FINDINGS**

2.1 In 1999, a new vision document for the ADB was elaborated, which defines the vision, lays out the strategy, and sketches out how to operationalise the vision and niche of the ADB. According to the said document, the vision statement of the ADB reads: "The African Development Bank group strives to be the leading development finance institution in Africa, dedicated to providing quality assistance to African Regional Member Countries in their poverty alleviation efforts".

2.2 With regard to the private sector, the strategy of the Bank is to assist RMCs in:

- Building the enabling environment for financial sector development;
- Developing private infrastructure and microcredit and savings service;
- Streamlining their regulatory and legal environments;
- Building entrepreneurial capacity of indigenous agri-business and grass root institutions;
- Building the right image for investment on the continent.

2.3 The private sector operation should reflect these visions and strategies, where most importantly, renewed emphasis is placed on equity and poverty reduction. It is on this background that policies, procedures, and the project portfolio is assessed below.

2.4 **Policies and Procedures Assessment**

*Private Sector Related Policies*

2.4.1 The Operations Policy and Procedures Division is situated in the Operations Policy and Review Department within the Vice-Presidency for Policy, Planning and Research.

2.4.2 The major task of the said division is the elaboration of an annual portfolio report presenting the policies of the ADB. However, it has been decided that OPSD policies are not to be included in the report, as OPSD policies, contrary to the procedures of the rest of the Bank, are formulated within the OPSD for the time being.

2.4.3 Currently, the OPSD is operating based on revised policies, guidelines, and a procedure manual. These are:

- Policies for Private Sector Operations (March, 1995)
- Proposal for Revision of the Private Sector Operations Policies (December, 1998)
- Equity Investment Policy Guidelines (March, 1995)
- Revised Policies for Lines of Credit to Private Sector Financial Institutions (June, 1998)
- Guidelines for Private Sector Loans (December, 2001)
- Procedure Manual for the Administration of Private Sector Loans and Equity Investments (Undated)

2.4.4 The study team is aware that a Study on the Restructuring of the Private Sector Department of the ADB has been undertaken during 2002-2003 and is currently under discussion at Board level. Since the said study also deals with policies and procedural issues, the study team has taken cognisance of its findings and want to point out that the evaluation study contrasts as well as brings supporting information to the said study.
Review of existing documents

2.4.5 Strengths and weaknesses of policies, strategies, and guidelines: Policies, strategies, and guidelines appear to have worked well in defining and delineating what type of projects the Bank can be involved in and by clarifying what instruments the OPSD can make use of when considering to finance a given project. Thus, policies and strategies appear to be helpful in making it clear what type of activity the Bank may be involved or may not be involved in.

2.4.6 On the other hand, the policies, strategies, and guidelines have little to say about what criteria to consider over and above to stress financial aspects. Thus, it is a major weakness, that they give little assistance in translating the vision of the Bank with respect to poverty alleviation and development impact into policies and strategies. The one important exception to this is the aspect of environmental concerns, where the Bank has developed its own detailed guidelines.

2.4.7 Procedures Manual and practices that have evolved over recent years: While a Procedures Manual does exist and has evolved over the years, it seems to represent a historical collection of documents, which has only a limited direct relation to the practices. One case in point is the simplification of project preparation procedures, which have not been introduced into the manual. This example thus represents outdated practices not being taken out of the manual. However, the opposite example also exists, where new important practices are not being included in the Manual. Hence, during 2001/2002 a Portfolio Monitoring Manual and Guidelines for Annual Supervision Reports have been developed and applied within the OPSD, without being formalised as Bank procedures and included in the Manual.

2.4.8 Interestingly enough, while the Annual Supervision Reports only have been elaborated for 2001 and 2002 and there is only limited scope for seeing a trend, there is, however, some improvement in the way that non-financial issues are being treated and reported on from 2001 to 2002.

2.4.9 In conclusion, there is no doubt that Bank policies, strategies, and guidelines for private sector operations need to be adjusted in order to translate the new vision of the Bank into such documents. Concomitantly, there is also a need to update the existing Procedures Manual in order to take account of important and useful practices of the OPSD that have developed in recent years.

Interviews with Bank staff

2.4.10 Interviews with Bank staff revealed that the present structure within OPSD, where the same division is responsible for the elaboration of policy guidelines as well as for actual operations, is considered inappropriate.

2.4.11 It was mentioned that a solution might be that until OPSD becomes large enough to establish its own policy department, the policy issues might be elaborated outside OPSD. It appears that there is a need for a clear policy statement, as present activities do not yet appear to be guided by firmly established objectives at the operation and portfolio management level.

2.4.12 With regard to the Procedures Manual, the interviewee's felt that there is a need to develop a consolidated document. From the beginning of the Private Sector activities up to 1995-96 the private sector activities went through a pilot phase. There is, therefore, reason to revise documents produced at this stage before the consolidated document is elaborated.
2.4.13 The team noted that support to SMEs was a major issue for the public sector activities of the bank, and that support to public financial institutions lending to SMEs played an important role. However, there does not appear to be any co-ordination between the public sector and private sector oriented departments regarding SME support activities, in spite of the fact that these are supported through public as well as private financial institutions. The place to give importance to the initiation of a more profound cooperation between the private and the public sector activities of the Bank is at the time of the formulation of the Country Strategy papers, where the private sector is not involved sufficiently and where there, at present, is no joint strategic thinking across the two sectors.

2.5 Project Preparation Procedures

2.5.1 Project preparation procedures take place at seven stages ranging from client's proposal to first disbursement as depicted in the following figure:

**Figure 3 – ADB Project Preparation Procedures, 2002**

2.5.2 The team has throughout its work heard practically speaking unanimous statements pointing to the ADB as having a reputation of applying very time consuming project preparation procedures and as having a record of delaying decisions and payments. As presented to the team, this is not only an issue about a negative image but also an issue about clients having major financial losses as a result of delays in ADB’s handling of project applications. In order to find out whether this image also represents a reality, the team has found it relevant to try to document the pattern of time spent following ADB’s own procedures.

2.5.3 Some initial results from this exercise can be found in Table 2 and 3, where the number of calendar days spent by ADB on project preparation, i.e. from application to first disbursement, for the four direct project loans in the sample is shown separately from the four financial projects.
2.5.4 It appears from comparing the information given in the two tables that generally speaking the number of calendar days spent are less on financial projects as compared to direct project loans. It also appears that although there is no clear trend over time, the Bank has spent less time on preparing the most recent projects of both categories. While the sample is not large enough to allow for a statistical test, the information might indicate a change for higher effectives in the Bank’s project preparation as from 1998/99.

Table 2 - Preparation of Direct Projects Loans, 1991 – 1999. Calendar Days

<table>
<thead>
<tr>
<th>Company</th>
<th>A</th>
<th>B</th>
<th>E</th>
<th>F</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Number of calendar days:</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Application</td>
<td>128</td>
<td>159</td>
<td>45</td>
<td></td>
</tr>
<tr>
<td>Preliminary Evaluation Note (PEN)</td>
<td>147</td>
<td>86</td>
<td>349</td>
<td></td>
</tr>
<tr>
<td>Appraisal Mission (AP)</td>
<td>65</td>
<td>65</td>
<td>349</td>
<td></td>
</tr>
<tr>
<td>Inter-departmental Review (PSOC)</td>
<td>246</td>
<td>23</td>
<td>21</td>
<td>8</td>
</tr>
<tr>
<td>Senior Management Review (PSIC)</td>
<td>43</td>
<td>43</td>
<td>76</td>
<td></td>
</tr>
<tr>
<td>Presidents Clearance</td>
<td>346</td>
<td>28</td>
<td>76</td>
<td></td>
</tr>
<tr>
<td>Board Approval</td>
<td>40</td>
<td>65</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>Loan Signing</td>
<td>91</td>
<td>23</td>
<td>315</td>
<td>70</td>
</tr>
<tr>
<td>Legal Opinion</td>
<td>15</td>
<td>19</td>
<td>76</td>
<td></td>
</tr>
<tr>
<td>Loan Signing to First Disbursement</td>
<td>15</td>
<td>19</td>
<td>76</td>
<td></td>
</tr>
<tr>
<td>Total Number of Calendar Days</td>
<td>804</td>
<td>675</td>
<td>867</td>
<td>574</td>
</tr>
</tbody>
</table>

Source: Evaluation Study Findings

2.5.5 This perceived trend towards higher effectiveness in the Bank’s project preparation procedures corresponds well with the examples the team has learned of efforts by Bank staff in detecting bottlenecks and trying to avoid them. Two pertinent examples in this regard deserve to be mentioned. First of all the procedure of elaborating a Summary of Project Appraisal has been abandoned with the explicit objective of shortening time spent on project preparation. Secondly, the OPSD has tried to involve the legal department (CLEG) at an earlier stage of the project preparation cycle in order to limit the time spent on preparation of documents following the signing of the deal. Thus no doubt, Bank staff is not only aware of its poor image in this regard but has for some time been trying consciously to improve on its record.

2.5.6 The team has also tried to establish a comparison between various financial institutions co-financing the same project. A case in point is Project B from Country II, where this comparison was possible, since the promoter send his application to three financiers at the same date and the three deals are in the same order of importance. In this case, the ADB was clearly lagging behind the other two financiers, CDC and EIB, which finalised their project preparation procedures in 396 and 418 calendar days respectively as compared to 675 calendar days in case of the ADB.
To conclude, while progress has been made by the Bank in shortening project preparation procedures, the issue remains as an image problem for the Bank as well as a real problem for clients, which in some cases of the sample opted for very expensive intermediary financing while waiting for ADB financing to come through.

### Project Monitoring Procedures

2.6.1 Monitoring of operational projects takes place from first disbursement to repayment. The project is at the time of first disbursement transferred to the Portfolio Management Group, which is then responsible for subsequent payments, for monitoring, and for following up on reporting.

2.6.2 The reporting requirements of the projects are: Quarterly Operations Reports, Quarterly Management Accounts, Quarterly Progress Reports in case of physical implementation of a project, Annual Audited Accounts with a management letter, Annual (or periodical) Confirmation of the Bank's Security.

2.6.3 Monitoring/supervision of the projects by the Bank: The Portfolio Management Group develops a Quarterly Portfolio Status Report. The Portfolio Management Group and the Risk Management Unit (FFMA) develop a Quarterly Review of Risk Profile and Provisioning jointly. Furthermore, annual field visits are conducted and since the year 2001, Annual Supervision Reports are elaborated. Wherever the ADB has a Board member in one of the projects, they take part in (typically) quarterly Board meetings.
2.6.4 No doubt, the Bank has over recent years built up a quite comprehensive monitoring and reporting system, which to some extent also is a reaction to the OPSD being criticised to do too little in terms of monitoring and supervision. While the system is still somewhat new, there is still by nature some gaps in its implementation, but when assessing the trend from 1999 through 2000 to 2001 the team has noted clear improvements in the coverage and quality of the system.

2.6.5 Subsequently, when disbursements are completed and the project is in operation a Project Completion Report should be developed.

2.6.6 For private sector projects, this has, however, only been done in one case, namely for Project A in Country I. Allegedly, the explanation for lack of other Project Completion Reports is, primarily, a result of shortage of staff. The PCR in question was reviewed by the team, which finds it to be a very useful working instrument for the ADB of a very high professional quality. It is therefore disappointing that the PCR has never been discussed inside the OPSD and possibly even never been read. Many of the lessons learned in this Evaluation Study mirrors the conclusions and recommendations already made in 1998 by the authors of the PCR prepared for Company A.

2.6.7 From 2001, the OPSD has, as mentioned, started elaborating an Annual Supervision Report (ASR), which the department, in line with the IFC, plans to develop into an Expanded Annual Supervision Report (XASR). However, resources are needed for the OPSD in order to elaborate such XASRs.

2.6.8 Once such a system of XASRs is in place, OPEV would be in a position to prepare independent Ex-post Evaluation Reports.

2.7 Evaluation Procedures

2.7.1 Ex-post Evaluations refers to independent evaluations undertaken by OPEV and not by OPSD.

2.7.2 In the MDB Good Practices Manual this point in time is defined as Early Maturing of Project after 18 Months of operation or 24 months following final disbursement. Thus, the timing of the evaluation does not relate to the repayment of loan or a possible de-investment of equity.

2.7.3 Ex-post Evaluations has apparently not taken place yet in case of private sector projects of the ADB, while in case of public sector projects, OPEV has undertaken a number of such evaluations.

2.8 Experience of other MDBs and Bilateral Donors

2.8.1 The team has been asked to take a closer look at the procedures of some members of the MDB ECG. It has been found most pertinent to examine the procedures of IFC and the AsDB.

IFC procedures

2.8.2 IFC procedures appear very much in line with the procedures of OPSD and average processing time from reception of the business plan to Board approval is, according to IFC sources, generally similar to that of ADB.
2.8.3 Once the business plan has been received, a summary report is elaborated, stating the main advantages and risks of the project. This report is circulated in order to receive comments on areas that should be thoroughly investigated during the field mission.

2.8.4 Compared to OPSD, the same number of persons are involved in the actual appraisal mission. According to IFC, the mission team normally consists of at most three persons, an investment officer with extended knowledge of the country in question, an engineer with the relevant technical experience (in the case of a productive project) or, in the case of a financial project, a financial specialist. In certain cases an environmental specialist is also attached.

2.8.5 The rest of the project team – the total number of the appraisal team can easily rise to some fifteen persons - provides feedback “at home”. The members are selected so as to ensure that there area of specialisation is fine-tuned to that specific project. When required, for example in the area of legal matters, outside assistance is provided.

2.8.6 Once the team has reunited, the appraisal report is finalised and submitted with recommendations to the relevant department. Once approved, it is circulated within the Corporation and then sent to the Board for approval.

2.8.7 At least 30 days before the proposed investment is submitted to the Board, the public is notified about the main elements of the project, including the results of the environmental review. The exercise aims at ensuring that all stakeholders are informed. The actual public notification exercise is tuned to the specific requirements of the project.

2.8.8 No direct comparison can be made between IFC and OPSD. IFC is solely dealing with private sector activities and operates independent of other World Bank activities – although substantial cooperation exists. However, IFC operates side by side with ADB in Africa where it has gained extended experience, both as a competitor to ADB and as a partner.

Asian Development Bank Procedures

2.8.9 Another example of relevance for OPSD is the Asian Development Bank, whose relative distribution of private and public sector activities is very much in line with that of ADB. However, at the policy level an important difference exists: it is the explicit objective of the AsDB to ensure a close co-ordination, i.e. synergy, between its private and public sector activities. Through its public sector operations in a given country, AsDB paves the way for private sector activities.

2.8.10 The AsDB recognises that its private sector project approval mechanisms is still to a large extent based on the one used for public sector projects: a proposal is reviewed, an appraisal team established and an appraisal field mission conducted. After internal discussions, amendments to the project are incorporated and the project presented to the Board after public notification.

2.8.11 The AsDB underscores, however, that contrary to the public sector, private sector activities should aim at levelling out the distinction between fact-finding, appraisal and negotiations with sponsors and co-lenders. Apparently, this goal has not yet been reached, but the will is there and political backing ensured.

2.8.12 The approval process for private sector projects involves two aspects: a development aspect and a credit aspect.
2.8.13 The development aspect consists of reviews of the consistency of a proposed project with AsDB strategies and policies. Of specific importance is whether the project actually needs AsDB to play a catalytic role in developing and financing the project.

2.8.14 The credit aspect reviews the bankability of the project, the risks associated with it, and the measures proposed to mitigate these risks. There is normally only one formal inter-departmental discussion of a project after concept clearance – a kind of Management review meeting where major issues related to the project are examined. After approval at this level, the private sector department will undertake bilateral consultations with relevant departments and offices to ensure project quality.

2.8.15 An interesting change has been made in this process in order to avoid processing delays due to continuous questioning of the project’s eligibility for AsDB assistance. Now key development concerns are solved through a much faster initial “concept clearance” procedure. During this phase, the sole concern is the consistency of the project concept with the relevant AsDB country and sector strategies, the rationale of AsDB participation, and finally environmental and social issues.

2.8.16 The approach is interesting. Instead of focusing on the financial aspects, and then come up with some general comments on development effects, the project is first shaped to take these overall objectives into account, for example by ensuring linkages to SMEs, enhanced employment, etc. Only once the development aspects, relevance, additionality, etc. of the project have been thoroughly reviewed, is the project “delivered” for financial assessment.

2.8.17 There is little doubt, that this procedure is not yet fully operational, and that the private sector project assessment still bears the marks of public sector procedures, but the approach appears to be accepted both by the private and the public sector departments.

2.9 Portfolio Assessment

2.9.1 Characteristics of the OPSP Project Portfolio and the Evaluation Sample

2.9.1.1 According to the OPSD\(^6\) as of the third quarter of 2001, the total committed portfolio of the private sector consisted of 12 project loans, 8 equity investments for a total exposure in 20 companies. The total amount committed was UA 182 million, of which UA 110.8 million has been disbursed and UA 108.3 million was outstanding. The amount committed for financial services represented 66% of the portfolio. Of this, 34% was in the form of credit lines for on lending to various industries and 41% was invested in equity funds, which invest in various industries. Direct investment in the infrastructure sector is only 6% of the portfolio, but if account is taken of amounts committed to two funds dedicated to infrastructure, then the total share of the sector is a significant 34%. The country distribution of the portfolio indicates the dominance of Egypt and Nigeria, which respectively accounted for 35% and 14% of the commitments. Overall there were commitments in 9 countries and two regional companies.

2.9.1.2 As indicated earlier, the final sample of field missions covers eight projects in six countries, three main types of operation (direct project loans, lines of credit, and equity investment), and includes projects perceived by the Bank as a success, on watch list, or a problem. While the final sample is balanced based on the said parameters, it has at the same time a bias towards the relatively well functioning part of the portfolio by leaving outright project failures.

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\(^6\) ADB-OPSD- Quarterly Portfolio Status Report 3rd Quarter 2001
2.9.1.3 The findings from the study team’s project assessments have been structured according to the four performance dimensions relating to direct project loans as indicated below and further defined in Annex I:

- **Project outcome: Results on the ground**
  - Business success
  - Development outcome
- **ADB’s involvement in project**
  - ADB’s investment profitability
  - ADB’s operational effectiveness

2.9.1.4 Concomitantly, the two performance dimensions of special relevance for Lines of Credits, i.e. the Bank’s additionality and catalytic role, are commented upon as an integrated part of the findings.

2.9.2 **Project's Business Success**

2.9.2.1 In this area, the Annual Supervision Reports 2001 and 2002 are the important recent source of information.

**Table 4 - Financial Outcome of Sample Projects in 2000 or 2001**

<table>
<thead>
<tr>
<th>Company</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on capital employed (ROCE) n.a.</td>
<td>-5.05%</td>
<td>1.1%</td>
<td>2.7%</td>
<td>1.96%</td>
<td>5.14%</td>
<td>1.6%</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Return on equity (ROE) n.a.</td>
<td>-19.22%</td>
<td>1.1%</td>
<td>6.4%</td>
<td>5.51%</td>
<td>19.71%</td>
<td>23.8%</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Net profit margin n.a.</td>
<td>-12.66%</td>
<td>29.8%</td>
<td>103.5%</td>
<td>2.85%</td>
<td>25.35%</td>
<td>66.2%</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>LT Debt/equity ratio n.a.</td>
<td>69.9%</td>
<td>n.a.</td>
<td>12.1%</td>
<td>56.0%</td>
<td>70.8%</td>
<td>100.2%</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Current ratio n.a.</td>
<td>1.11</td>
<td>43.8</td>
<td>n.a.</td>
<td>1.29</td>
<td>0.54</td>
<td>n.a.</td>
<td>n.a.</td>
<td></td>
</tr>
</tbody>
</table>

*Note: (*) Latest available year is 1995  
(**) Project approved in late 2001. First Annual Supervision Report still to be made  
Source: OPSD Annual Supervision Reports 2001 and 2002*

2.9.2.2 The collection of information regarding the ratios shown only started year 2001 where the first Annual Supervision Reports appeared.

2.9.2.3 All in all, the picture depicted for direct project loans is bleak. The major consolation is the Company F, which constitutes the only project where the appraisal figures are in line with actual performance. For the other direct project loans actual performance is far below planned performance. On the other hand, it appears from Table 4 above that the financial projects, constituted by equity investments and lines of credit, represent a higher profit potential than direct project loans.

2.9.2.4 The Annual Supervision reports already provide a range of information, which is of use when assessing project performance. Especially the “Key Financial Indicators” are crucial. However, there is a need to compare each year the annual appraisal figures with annual actual performance in order to identify the areas where deviations are at a level which require a closer investigation into the relevance of e.g. assumptions used in the appraisal. This is not done at present in the ASRs.
Management quality

2.9.2.5 One indicator of management quality is compliance with ADB report requirements. As regard Company A, the only project which has functioned over a substantial period, there has continuously been delays in audited accounts, which are expected to be completed within 6 months of the financial year end. The other projects tend to encounter the same problem, but in these cases the indicator is of limited value as most of them still have teething problems.

2.9.2.6 It was the study team’s impression, that even in the cases where management was of a very high standard, reporting to ADB did not have a high priority. Apparently the reason is mainly a lack of understanding of the Bank’s need for this information. Typically the management is overburdened with day-to-day problems and try to push aside reporting issues, which do not have a direct financial impact. However, once the ADB missions embark, they normally find the management very co-operative and willing to provide information.

2.9.2.7 Another indicator of management quality is its resilience to external events and ability to apply a flexible approach to new situations, be they initiated by internal or external forces. In this regard the management of Company C, as well as E and F rate high. As regards C, the management has played an important role in providing individual solutions to the sub-projects, solutions, which were finely tuned to their specific requirements. In the case of E, the management has managed to transform the company from an export oriented to an import substituting enterprise while simultaneously enlarging its activities and adjusting its products. Company F has shown outstanding performance in a very different area: Management has been able to stand up against the host government when the latter threatened to cut its purchasing prices for electricity or lower the volume of its purchases.

2.9.2.8 There is little doubt that selection of the right management team is of crucial importance for project success. In the area of private sector development, the MDBs have the advantage of being able to attract highly skilled managers. The main problem is whether these managers are making a sufficient effort to select and train their successors and local partners. The experience of the study team is that this is seldom the case.

The market and its drivers

2.9.2.9 Among the direct project loans, Company F plays a specific role. The host country government ensures the purchase of its total production through a “take and pay” contract. Throughout the project period all payments by the government have been on time, a feature which the sponsors attribute to the involvement of IFC and thereby the IBRD group.

2.9.2.10 The situation is very different for smaller firms producing for the private market. It is a general feature that the Investment Proposals, when assessing the market situation, applies a “before” and “after” approach, where the project is inserted in an existing and known environment, the main dynamic force of which is the growth of the population, and thus of potential consumers. This approach has had serious consequences, especially in situations where a “niche” had been found (as was the case regarding Company E, the market of which was challenged by a rival company, in spite of the fact that the appraisal had foreseen that no serious competition would materialise).
2.9.2.11 It is a serious shortcoming that market development plays such an insignificant role in the annual supervision reports. It is strongly recommended that “the market and its drivers” be incorporated in “Back-to-Office” reports and the Annual Supervision Reports as a permanent feature.

Resilience to external effects

2.9.2.12 One of the main reasons for the low level of foreign investment in Africa is known to be the level of political instability. There is a range of others, but it is generally acknowledged that this is an issue to which foreign investors are highly sensitive. There are two ways of dealing with this problem. The first is the longer-term solution of improving the enabling environment, the second is to make an enterprise more resilient to external events.

2.9.2.13 As mentioned above, Company F found that the strong involvement of IFC has protected it against interventions on the part of government. Company E represents a different situation: the reason for requesting ADB involvement was the expectation that ADB would be able to protect the interests of the enterprise at government level. This wish never materialised, but the situation forced the management to create a network of allies, which persuaded government to accept their demand for a ban on exports of its raw materials.

Reputation in the local business community, business ethics and attractiveness as employer

2.9.2.14 According to the information collected, ADB does not attach any direct weight to these issues when selecting projects. However, the fact that it seeks to minimise risks will normally have the effect that only enterprises of a certain standard are selected. However, it is somewhat surprising that the Bank has not made use of its experience from RMCs as regards the existence of different business systems in RMCs with each their characteristics, and for example anticipated the business practices of clients linked to the Asian business community. Thus, in the project sample two of the manufacturing projects form part of the Asian business community, where strong inter-Asian business ties led to very different outcomes than what was expected by the Bank’s appraisal team.

2.9.2.15 The situation from direct project loans is different in the case where support is provided to financial institutions, which on-lend to enterprises. How can ADB in these cases ensure that business ethics, minimum wage regulations, etc. are being respected? Most likely, the answer is that this can only be achieved by being highly selective, when identifying potential receivers of credit lines.

2.9.2.16 In the cases which have been investigated, first and foremost C and D in the same host country, the Bank has only been involved together with other respected organisations, in the case of C, the CDC and of D, the IFC.

2.9.2.17 This policy provides some protection, but it is doubtful whether it is enough. The recent changes within CDC, a change away from development goals towards a pure profit-making organisation, has to some extent tarnished ADB’s image in the cases where they have acted as partners. What appears to upset the business community is the fact that the CDC, according to them, uses its former reputation as a development agency to disguise its profit-maximising effort. The change in CDC’s policy implies that the Bank on its own has to ensure that ethic and social aspects are dealt with.
2.9.2.18 This is not possible in countries far from Head Office without a regional ADB office. The study team was again and again informed that continuous communication with the business community was required in order to ensure that the projects and subprojects adhered to their social obligations.

2.9.3 Development Impact

2.9.3.1 The development impact of a project can normally first be measured in the medium and longer term, although there are exceptions, as for example employment effects. It can thus be expected that there is a positive correlation between a project’s age and the eventual emergence of development effects. The projects investigated can be classified as follows on the basis of the year of first disbursement:

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
</tr>
</thead>
</table>

Source: Evaluation Study Findings

2.9.3.2 The table shows that company G and H are too early to be considered in assessing the development impacts. Thus, only four productive projects: A, B, E, and F divided on four different countries, and two financial ones, both situated in the same host country are considered for this assessment.

Linkages

2.9.3.3 An important development indicator is the level of backward and forward linkages a project has managed to generate. One would expect Company, the productive project that has been operating for the longest period to show strong linkages. However, due to the fact that the project only is an expansion of an existing project, no new linkages were actually established. The fact that Company B, another expansion project which followed closely in time, did not show any linkage build-up either, strengthens the conclusion that expansion projects are not in themselves the kind of projects most likely to create linkages. A very different situation could be observed in the case of E and F, both large start-up projects applying rather sophisticated technology. In these cases linkages were established, especially due to the abundant use of local inputs.

2.9.3.4 The situation regarding C and D situated in the same host country differs. Substantial linkages would be expected, as they are both providing lines of credit to SMEs. However, contrary to expectations, C has not created the level of linkages expected and is unlikely to do so in the future. The reason is first and foremost that Company C's three start-up companies failed and that it has been decided no longer to support start-ups. The situation is different for D: The very provision of micro-credit is linkage creating.

Catalytic effects on other companies

2.9.3.5 Due to the risk-minimising attitude of ADB, one would expect the Bank supported project to be of a standard likely to have a catalytic effect on other companies. Surprisingly, this does not appear to have been the case, except for one company E: At the time it was appraised, it was expected to be the only of its kind in its host country. However, the concept was immediately copied by another existing company, which applied the same technique.
2.9.3.6 Another project, which has had – and still has - a catalytic effect, is Company D, which witnesses still more competition from new small-scale credit providers. This competition has forced it to introduce a range of new borrowing terms in order to satisfy the requirements of its clients.

2.9.3.7 Also Company C has had a catalytic effect: local investors have created very similar investment funds, aiming at the same clientele. The effect has been that C is now forced to expand at the regional level.

2.9.3.8 Although the catalytic effects on other companies is an advantage at the macro-level in that competition is increased, it also puts the profitability of the project at stake. This does not imply that this effect should not be pursued, only that such effects should be registered when carrying out evaluation in order to acquire a broader picture of the circumstances most likely to trick off catalytic effects, and the likely impact on the Bank-supported company.

**Impact on an enabling environment**

2.9.3.9 All the countries in which the projects are situated have been through a structural adjustment exercise or are in the final stages of one. However, none of the projects are former public enterprises. Still, some of them have specific features, which can be said to contribute to an enabling environment: The first one is C, which is the first private Bank credit line to a private IFI. The other is F, the first private electricity-producing unit in its host country.

2.9.3.10 Apart from these examples, none of the projects have directly contributed to an enabling environment – on the contrary: in the only case where a project has directly influenced government decisions, the result has been an enhancement of government regulations. This was the case with E which – together with its competitor - managed for one year to make government ban the export of their main inputs.

2.9.3.11 There is, however, also another example, which should be cited in the discussion of the effect on an enabling environment, namely the case of F which demonstrates the positive effects of showing a high level of resilience to pressure from Government: The host country government has several times tried to “twist” the contract established with Company F, according to which the host government is to purchase the total capacity of production. Every time, the management has stood firm and the host government given in. A reason for this behaviour on part of the Government might be that F is one of the very few large foreign investments having taken place over the last years. It furthermore has a strong MDB involvement provided by the ADB and the IFC, which both benefit from preferred lender status, and its business success is crucially dependent on the host government respecting the contract established.

**Improvement of living standards**

2.9.3.12 The main effect on improved standards of living of the projects investigated would be an increase in employment. Using employment as a measurement for improvement of living standards implicates that a range of assumptions are satisfied, first and foremost that the persons being employed were earlier unemployed without any earnings, or the they were employed, but left their job, which was then taken over by persons formerly unemployed.
2.9.3.13 Another way of improving living standards is a fall in the prices of consumer goods (or an increase in quality without a corresponding price increase). According to economic theory a fall in prices increase the consumer surplus (the amount each consumer is willing to pay, minus the actual price).

2.9.3.14 It is a typical feature of the Investment Proposals (IPs) of Bank projects that they never explicitly mention the projects effect on the standards of living. This aspect is only mentioned indirectly, namely when dealing with a project’s employment effects. There is a need to be far more specific in the future when elaborating IPs so that all main project changes likely to affect the standards of living positively or negatively are taken into account.

2.9.3.15 It is a general feature of the IPs that few attach specific emphasis to employment generation. The material available shows that this trend has not changed over the years, in spite of the fact that the development impact has increased in importance during the period in question. This does not mean that the employment effects are not stated, but they are normally to be found in the financial annexes in relation to the prevision of the “total wages” figure. Employment creation is – clearly - not considered an objective in its own right. As far as the financial institutions are concerned, this is understandable (although the issue should be dealt with when lines of credit are provided), but when the issue is projects directly involved in production, a discussion of technological alternatives and their effects on employment could be expected.

2.9.3.16 It is evident that the employment effects are strongest in the start-up projects, and of specific strength within agro-business where a combination of advanced machinery and highly labour intensive processes often merge.

2.9.3.17 There can be reasons not to focus on direct employment, but instead on the secondary effects of a company’s activities (employment increases in linkage companies, multiplicator effects, etc.). What appears to be required in order to ensure that the area is dealt with sufficiently is that the employment effects are awarded a specific section in the Investment Proposal and that monitor-indicators – as quantifiable as possible - be set up.

*Environmental and Social Effects*

2.9.3.18 The Investment Proposals show clearly that environmental aspects become still more important over the period in question - a natural consequence of the increased weight ADB attaches to this issue. The creation of the OESU (Environmental and Sustainable Development Unit) in 1996 provided an opportunity to develop guidelines and harmonise them with practices of other MDBs.

**Table 6- Classification of Sample Projects by Environmental Category**

<table>
<thead>
<tr>
<th>Company</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental category</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

*Note:* Category 1: Projects that may generate the most severe environmental and social impacts – requires a full Environment and Social Impact Assessment. 2: Projects are likely to have detrimental and site specific environmental and/or social impacts that are less adverse than those of Category 1; 4: Applies to investment of Bank’s funds through Financial Intermediaries.

*Source:* Evaluation Study Findings
2.9.3.19 The table above shows the categories of the different projects. It can be seen that also in this area there is a broad distribution on different categories. It can appear surprising that for example Project H is placed in category 4, taking into account the environmental problems likely to be encountered within a range of subprojects, but the reason appears to be that a covenant is incorporated in the Line of Credit agreement, requiring the IFI to ensure that the ADB environmental guidelines are followed.

2.9.3.20 In most projects visited, it was underscored that ADB was very sensitive to environmental issues, not only during project preparation, but also after disbursements. Still, it appears that whenever other MDBs have been involved in a project, they have taken over the responsibility of implementing the environmental assessment. In other words, the Bank may be better advised to spend its efforts as regards development outcome in other areas, where it has the possibility to play a genuine role.

2.9.3.21 The importance of ensuring sustainability regarding environmental awareness comes out clearly in the case of Project A. The Bank supported the project during a period where environmental awareness was less in focus and the result is as expected: At the time of the elaboration of the PCR environmental considerations were openly ignored.

2.9.4 ADB's Investment Profitability

2.9.4.1 The Bank divides its project portfolio into three broad categories: performing, problem projects, and projects written off. As long as the project pays what has been agreed with regard to principal and interests, it is considered as performing according to expectations. When shorter delays occur in payments on principal and/or interests, the project is included in a watch-list. A project is considered a problem project if either it has problems being completed or it has been completed, but is has delays in payments for more than six months. Finally, a project can be written off. All projects are subject to ongoing Bank monitoring reported on in Quarterly Portfolio Status Reports. As part of the monitoring various instruments such as risk ratings and provisioning are being used, see Table 7 for the project sample below. Risk classes are constituted by: Very low (1), Low (2), Moderate (3-4), High (5-6), Very high (7-10).

2.9.4.2 As regards, the category of projects written off, this has only taken place so far in three cases, which do not include any of the sample projects. The decision to write off was taken at a Board meeting in August 2002 and has led to the set up of a task force to develop guidelines regarding write offs, with a view to IFC and EIB policies.

<table>
<thead>
<tr>
<th>Company</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk rating</td>
<td>*</td>
<td>7</td>
<td>6</td>
<td>none</td>
<td>6</td>
<td>4</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Provisioning</td>
<td>*</td>
<td>40%</td>
<td>0%</td>
<td>0%</td>
<td>15%</td>
<td>6%</td>
<td>4%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Note: (*) Loan has been fully repaid
Source: Evaluation Study Findings
2.9.5 The Bank’s Operational Effectiveness

The rational for Bank investment and its additiorality

2.9.5.1 The rational for and additiorality of Bank investment relates to a range of issues. However, the most important are the relevance of the project in relation to the Bank’s country strategy, especially as regards sectors, and the Bank’s ability to propose lending terms and support which are not available elsewhere.

2.9.5.2 As regards ADB’s country strategies, these are at present only aimed at public sector investments and privatisation exercises. It is of crucial importance that the Country Strategies incorporate private as well as public sector objectives. It is, however, not recommended to set up a specific strategy for the private sector. Such a step will only encourage the already sharp division between the Banks public and private activities. What is needed is an integration of the two aspects in order to ensure that ADB public sector activities create links to the Bank’s private sector activities.

2.9.5.3 As regards additionality the Bank appears to have a mixed record. It is a general feature that the Bank is clearly additional in relation to local lending sources – these are often, as is the case in, for example, Company E, not tuned to financing investment items.

2.9.5.4 When comparing the Bank’s services with those of other financial development institutions, it is difficult to see where the Bank has a specific advantage. Even when account is taken of the fact that the Bank acts within a well-defined geographical area, where it is expected to have specific knowledge, it is difficult to find areas where, for example, the IFC is not providing more targeted services. One of the reasons is that the IFC has offices in more African countries, or if it does not have, the World Bank mission acts as an intermediary. This feature provides IFC with a hands-on knowledge of the day-to-day events affecting the business environment, as well as with a unique opportunity to “catch” new investment opportunities.

2.9.5.5 In the present situation, the Bank has to enlarge and adjust its activity range in order to improve its performance. An important problem at present – which also confronts IFC – is the inability to provide loans in local currency. It is difficult to see the rational when the Bank requires that, for example, an import-substituting project like Company E repay its loans in foreign currency. While it is easily understood that the Bank needs to limit its risk exposure, loans in local currency and loan for working capital are fundamental financing tools for the clients of the Bank. Seen in this perspective, this issue is fundamental to Bank mandate and vision.

2.9.5.6 Another problem regarding the forex requirement is that the bank is not able to finance working capital. For many projects, especially the productive ones, one of the main drawbacks of the Bank is the lack of access to borrowing for working capital requirements. If ADB became willing to provide loans for working capital requirements, it would enhance the Bank’s impact on the project substantially.

At-entry screening and the general quality of appraisals

2.9.5.7 Generally, the appraisal reports of the sample projects are of a high standard. However, methodology-wise, it is a considerable drawback that the financial projections do not incorporate different scenarios. It is considered useful that at least three scenarios (high-medium-low) be presented in the financial projections. Only once these scenarios have been presented
should a sensitivity analysis be conducted. It is essential to “catch” the combinations resulting in negative or unacceptably low FIRRs and on that basis to discuss the likeliness of the emergence of such situations. The importance of this approach can be seen from the fact that only one of the projects investigated performed in line with the appraisal figures (a reason might be that the contract with the host government ensured that total production was purchased at a prefixed price). For all other projects previsions and actual performance bore little resemblance.

**Monitoring and Supervision Quality and Support to the Project after First Disbursement**

2.9.5.8 This area can be divided into two: One is the support provided by the Portfolio Management Group and others partaking in missions, and the other is the reports issued, stating the project situation. For all projects, which were still supervised, the impression was that the managers were impressed with the activities of the annual or bi-annual missions. The ADB mission members normally spend more time than most other foreign investors on checking out all main aspects of the project in question. They also tend to insist on visiting sub-projects financed by Bank provided lines of credit.

2.9.5.9 Since year 2001, OPSD has introduced Annual Supervision Reports, which provide an overview of first and foremost the financial performance of a project. These reports focus on the banking aspects of the project, as for example the main financial ratios and their change over time. However, more often than not, the corresponding figures from the financial previsions in the appraisal are not presented, and it is therefore not possible to perform an actual monitoring exercise.

2.9.5.10 The reports’ main function is to ensure that OPSD has an overview of the financial status of the projects, especially regarding their repayment performance. OPSD should ensure that information regarding e.g. marketing aspects, provision of inputs, etc. are transferred from specialists to the project in question and that recommendations in this respect are shown in the supervision reports.

**The degree of creativity and innovation, and the extent of ADB’s catalytic role.**

2.9.5.11 In none of the projects investigated, having several international financers involved, has ADB played a creative or catalytic role, compared to other financers. Apparently the reason is that there has been a focus on supporting large, sound projects, which required several international investors with far more experience in private sector support than ADB. This may be a wise strategy for the time being where there is a need for OPSD to lower its risk level, an approach that cannot easily be combined with a creative and catalytic role.

2.9.5.12 The changing role of CDC, with whom OPSD has worked closely together, might provide ADB with a higher level of innovativeness. CDC has abandoned its development role and concentrated on projects providing fast and high profits. This leaves an empty space, which ADB can fill, especially if bank allocations to OPSD are increased, a likely development in the time to come.

**Risks and save guards**

2.9.5.13 From the appraisals, it appears that the Bank is highly concerned with building up waterproof save guards against risks. This is a very commendable exercise, which requires substantial time and resources, but it is important to be aware of the costs: In some cases, the risks are minimised to an extent which makes it tempting for the Bank to abandon a project before time, without having performed the required problem solving exercises.
2.9.5.14  It is, however, to be underscored, that the Bank has had a number of projects with serious problems, and that it most often has done whatever was in its power to continue its support, even when other donors abandoned the project.

2.9.5.15  At present the Bank is confronted with three “problem projects”. In one case the sponsors have run out of money, but the ADB is still willing to consider a restructuring of the project, if they manage to raise additional money for the completion of the project. In the second case the sponsors have also run out of money, mainly due to cost escalations caused by delays in the payments to be made by key lenders. However, the ADB is still willing to consider a restructuring, but requires that the sponsors raise some additional funds themselves. The last one is Company B. Also in this case the Bank is doing its utmost to save it and is waiting impatiently for the restructuring deed to be signed.

2.9.5.16  It appears, however, that the Bank sees LoC as a way to limit risks and assure repayments and that this in turn explains the current pre-dominance of Lines of Credit in the bank’s private sector portfolio.
3. LESSONS LEARNT

Based on the findings outlined above, the following lessons learnt can be noted:

3.1 Adequacy of OPSD Policies, Strategies, Guidelines, and Procedures Manual

3.1.1 Bank Policies, Strategies, Guidelines, and Procedures Manuals

Bank policies, strategies, and guidelines for private sector operations need to be adjusted in order to translate the new vision of the Bank into such documents. Concomitantly, there is also a need to update the existing Procedures Manual in order to take account of important and useful practices of the OPSD that have developed in recent years.

3.1.2 Cooperation between Public and Private Sector Operations

There is a need and a scope for a more profound cooperation between the private and the public sector activities of the Bank. A good opportunity to initiate such cooperation might be at the time of the formulation of the Country Strategy Papers (CSPs), where the private sector is not involved sufficiently and where there, at present, is no joint strategic thinking across the two sectors. However, for this to take place, the OPSD needs staff and time to get involved in the CSPs.

3.1.3 A Project Focus Versus Focus on Enabling Environment

The OPSD approach is too focused on narrow project support, while related opportunities of strengthening the enabling environment and regulatory framework for private sector development in the host countries of Bank financed projects are missed. However, in order to focus on aspects other than the financial, the OPSD needs specialised staff in this regard.

3.1.4 Financial Projections in Appraisals

Generally, the appraisals presented are of a high standard. However, methodologically, it is a considerable drawback that the financial projections do not incorporate different scenarios.

3.2 The Bank’s Operational Effectiveness

3.2.1 Project Preparation Procedures

While the Bank in shortening project preparation procedures has made some progress, the Bank continues to have an image and a practice of very lengthy project preparation procedures. This issue remains as an image problem for the Bank as well as a real problem for clients, which in some cases of the sample opted for very expensive and in the end deadly intermediary financing, while waiting for ADB financing to come through.

3.2.2 Financial Projections in Appraisals

It should also be recalled that pre-contract activities, such as identification and relationship building, are important requisites for projects to enter the formal project cycle of the Bank. Quite often and particularly in the area of infrastructure, staff may have to follow a project-lead for 2 to 3 years before the project materialise and is included in the pipeline. Additionally, quite often a number of project-leads do not materialise. If such time and effort is not recognised, then implicitly the staff is encouraged to seek “quick” projects, which for the most part often will be projects with a strong financial component and typically very little in terms of additionality, development impact, environmental compliance, or social benefits.
• Additionality

3.2.3 In most projects visited, it was underscored that ADB was very sensitive to environmental issues, not only during project preparation, but also after disbursements. Still, it appears that whenever other MDBs have been involved in a Bank financed project, they have taken over the responsibility of implementing the environmental assessment. In other words, the Bank may be better advised to balance its efforts as regards development outcome taking into account other areas, where it has the possibility to play a genuine additional role.

• Working Capital and Loans in RMC currencies

3.2.4 If the Bank could find ways to provide loans for working capital requirements and to give loans in some more of the RMCs national currencies, it would enhance the Bank’s impact on the projects substantially and go a long way to meet clients’ demands.

• Project Completion Reports

3.2.5 In principle a Project Completion Report should be developed at the time of project completion. For private sector projects, this has, however, only been done in one case, in 1998. The PCR in question was reviewed by the team, which finds it to be of a very high professional quality with the potential of being a very useful working instrument for the ADB. It is therefore disappointing that the said PCR apparently never has been discussed inside the OPSD.

3.3 Performance of the Private Sector Project Portfolio

• Key financial indicators

3.3.1 In case of all direct project loan beneficiaries visited the financial outcome was low as compared to the IP. The Annual Supervision Reports already provide a range of information, which is of use when assessing project performance. Especially the “Key Financial Indicators” are crucial. However, no comparisons between previsions in IP and outcome are undertaken in the ASR.

• Catalytic effects

3.3.2 As a development bank, the Bank will need to consider the trade-offs between catalytic effects and potential profits. Thus, although catalytic effects on other companies are an advantage at the macro-level, in that competition is increased, it also puts the profitability of the project at stake. This does not imply that this effect should not be pursued, only that such effects should be registered when carrying out monitoring and evaluation in order to acquire a broader picture of the circumstances most likely to trigger off catalytic effects, and the likely impact on the ADB-supported company.

• Effects on Standards of Living

3.3.3 It is a typical feature of the Investment Proposals that they never explicitly mention the projects effect on the standards of living. This aspect is only mentioned indirectly, namely when dealing with a project’s employment effects. There is a need to be far more specific in the future when elaborating IPs so that all main project changes likely to affect the standards of living positively or negatively are taken into account.
3.4 **ECG GPS for Evaluation of Private Sector Operations and the ADB**

- *ECG GPS’s vision for a monitoring and evaluation system and present practices at ADB*

3.4.1 The new ADB vision emphasises the vision of contributing to the poverty alleviating efforts of the RMCs. Further, newly proposed investment criteria for private sector projects would require that these are evaluated on parameters of poverty alleviation, environmental sustainability and additional value of the project. Thus, there is definitely a gap between present practice of monitoring and evaluation in ADB (focusing on loan performance, company performance and covenants) and needs for accountability and providing lessons learned on these issues.

3.4.2 For the purpose of developing monitoring and evaluation guidelines along these lines, the ECG GPS provide a good basis. However, an application of the ECG building blocks on case studies of the evaluation study have shown that they do not provide an exhaustive list of specific indicators, which have to be developed for the specific projects. Further, some of the indicators applied in the ECG GPS (e.g. financial and economic rate of return) can only with difficulty be calculated and that there would be a need to use more simple calculations, at least in a transition period. Some indicators need to be split into sub-indicators to be meaningfully evaluated.

3.4.3 More importantly, at present it appears relevant for ADB to assess the dimension of business success separately from development outcomes. Development outcomes are a new area for ADB to monitor and evaluate and thus it needs special attention. It should not be blurred, by being rated together with the project’s business success, as business success rating and other development outcome ratings can differ substantially in a project. A continuous dialogue among the MDBs takes place to refine and adjust the ECG GPS and such a dialogue should be reflected in ADB guidelines. Thus, the development of new monitoring and evaluation practices should be able to incorporate adjustments as a result of MDB decisions or changes within ADB. The introduction of such a new monitoring and evaluation practices may require a change in attitude and philosophy of staff as well as management.

- *ECG GPS and OPSD Monitoring and Self Evaluation*

3.4.4 From 2001, the OPSD has, as mentioned, started elaborating an Annual Supervision Report (ASR), which the department, in line with the IFC, plans to develop into an Expanded Annual Supervision Report (XASR). However, more resources are needed for the OPSD in order to elaborate such XASRs.

- *ECG GPS and OPEV Independent Evaluation*

3.4.5 The ECG GPS stress the importance of independent evaluation of XASRs. This corresponds to ADB’s current practice for public sector projects, where a PCR Evaluation Note is elaborated by OPEV. This format can be used as a starting point for elaboration of private sector XASR assessment, in accordance with ECG GPS.
Direct Project Investments Versus Lines of Credit

3.4.6 These two instruments cannot be assessed according to the same criteria since the two types of ADB involvement are different in nature. The issue is that when dealing directly with projects there is, at least theoretically, no problem in accessing the necessary information for assessing the project’s development impact and the project’s business success.

3.4.7 However, when providing Lines of Credit the ADB is not directly involved with the final beneficiaries. Therefore the possibility for assessing business success and development impact of the final beneficiary projects is very limited if not non-existent since access to the relevant information is equally limited or non-existent. This is so i.a. because the borrower banks cannot or will not release such information to third party e.g. due to legal requirements. Consequently, the assessment of impact of Bank support will have to rest on different criteria. Additionally, too much exposure to the banking system may result in a poor balance of the portfolio and therefore to an increased risk.
4. RECOMMENDATIONS


- Bank Policies, Strategies, Guidelines, and Procedures Manuals

4.1.1 It is recommended to adjust the Bank private sector policies, strategies, and guidelines in order to translate the new vision of the Bank into such documents. Concomitantly, it is also recommended to update the existing Procedures Manual in order to take account of important and useful practices of the OPSD that have developed in recent years.

- Cooperation between Public and Private Sector Operations

4.1.2 It is recommended to strengthen cooperation between the private and the public sector activities of the Bank. A good opportunity to initiate such cooperation appears to be in the Economic Sector Work and at the time of the formulation of the Country Strategy Papers, where the private sector is not involved sufficiently and where there, at present, is no joint strategic thinking across the two sectors.

- A Project Focus Versus Focus on Enabling Environment

4.1.3 It is recommended to the OPSD to widen its approach by giving more emphasis to the strengthening of the enabling environment and regulatory framework for private sector development in the host countries of Bank financed projects. To shift the emphasis, the OPSD needs more staff, but also needs to accept the consequences on loan volume and portfolio profile.

- Employment effects to be included in Investment Proposal and in Monitoring

4.1.4 There can be reasons not to focus on direct employment, but instead on the secondary effects of a company’s activities (employment increases in linkage companies, multiplier effects, etc.). What appears to be required in order to ensure that the area is dealt with sufficiently is that the employment effects are awarded a specific section in the Investment Proposal and that monitor-indicators – as quantifiable as possible - be set up.

- Format for Financial Projections in Investment Proposals

4.1.5 It is recommended that in the Investment Proposals at least three scenarios (high-medium-low) be presented and discussed in the Financial Projections. Only once these scenarios have been presented should a sensitivity analysis be conducted.

4.2 Management and Work Practices at OPSD

- Improvement in use of assumptions in IP as compared to ASR

4.2.1 It is recommended to compare the annual appraisal figures with annual actual performance in order to identify the areas where deviations are at a level, which require a closer investigation into the relevance of e.g., the assumptions used in the appraisal.
4.2.2 The team recommends that in the appraisal phase, more emphasis should be attached to carrying out professional market surveys for productive projects supported individually by the bank. It is strongly recommended that “the market and its drivers” is incorporated in “Back-to-Office” reports and the Annual Supervision Reports as a permanent feature. In addition to funding professional market surveys, the OPSD is recommended to fund pre-project activities such as pre-feasibility studies with the view to increase the capacity of the staff to identify bankable projects, in particular in the area of private infrastructure.

4.2.3 Where there is a regional representations, their function is limited to public sector activities. It is therefore recommended that a private sector representative be assigned in the existing regional office with the mandate to travel in the countries covered by the regional office. It is also recommended that in selected RMC’s considered important within the strategy of the OPSD, budgetary resources are committed in order for the ADB to engage a highly respected person or a sounding board from the business community to facilitate that any information which gives rise for concern or represent windows of opportunities are transmitted immediately to OPSD.

4.2.4 Once the ADB missions embark, they normally find the project management very cooperative and willing to provide information. It is recommended that while the normal quarterly reporting requirements primarily geared towards financial issues are maintained, as many of the reporting requirements related to development outcome as possible are dealt with in connection with ADB missions, until such development outcome concerns are fully operationalised by the Bank and integrated into the Banks normal reporting requirements.

4.3 A Systemic Approach to Monitoring and Evaluation based on ECG GPS

4.3.1 It is recommended that when the Bank develops guidelines for monitoring, evaluation (self-evaluation) and validation of Self-evaluation (independent evaluation), then the ECG GPS only be partly implemented at this stage. (See Table 10, Annex 6.4. for further details)

4.3.2 In a modification of the ECG GPS, monitoring and evaluation is recommended in case of Direct Project Loans to be structured according to the following four performance dimensions.

- Project outcome: Results on the ground
  - Business success
  - Development outcome
- ADB’s involvement in project
  - ADB’s investment profitability
  - ADB’s operational effectiveness
4.3.3 As regard to Lines of Credit, where the Bank has limited access to information about the sub-projects of the intermediary financial institution, it is recommended at this point in time to confine the assessment of project outcome to the Bank’s additionality and catalytic role as regards loan portfolio and operations of the borrower. At the same time, it is recommended to undertake an evaluation of the outcome of the Bank’s existing Lines of Credit and on this basis develop the monitoring and evaluation system further to include the sub-projects.

4.3.4 For monitoring and evaluation to be able meaningfully to focus on the said dimensions, it is recommended that these will also be incorporated in guidelines for the Bank’s Investment Proposals.

- Need for flexibility

4.3.5 The team recommends that the development of monitoring and evaluation guidelines should be viewed as a flexible process, where it should be possible to adjust or add elements in view of changes in ECG GPS or at the IFC, which appears not only to be front runner in this area but also of special interest for ADB because of IFC’s strong presence in RMCs.
# Indicators Used by Study Team in Portfolio Assessments

## Table 8 - Indicators Used at Project Level Based on ECG GPS

<table>
<thead>
<tr>
<th>Nr.</th>
<th>Criteria</th>
<th>Indicators</th>
<th>Rating</th>
</tr>
</thead>
</table>
| 1   | Development Impact | ♦ Growth of efficient financial markets and productive private enterprises  
Eg. Technology transfer, resource allocation efficiency, upstream/downstream linkages, catalytic effects on other companies, impact on enabling environment, etc.  
♦ Growth of the economy  
Eg. Calculate economic rate of return to avoid activities which are directly or indirectly subsidised  
♦ Living standards  
Eg. Generation of direct and indirect taxes, living standard of employees, customers, suppliers, etc.  
♦ Environmental effects  
Eg. Sub-project subject to ADB approved environmental screening  
♦ The project’s economic rate of return (*)  
♦ The investment climate/country risk/enabling environment | |
| 2   | Project Business Success | ♦ Return on Capital employed (ROCE)  
♦ Return on equity (ROE)  
♦ Net profit ratio  
♦ Long term debt/equity ratio  
♦ Current ratio, etc  
♦ The internal financial rate of return(*)  
♦ Management quality  
♦ Market (and its drivers)  
♦ ISO quality certification  
♦ Environmental performance & monitoring (*)  
♦ Resilience to external events  
♦ Reputation in local business community  
♦ Business ethics  
♦ Attractiveness as employer | |
| 3   | ADB’s Investment Profitability | ♦ Repayment of loan (when loan financing)  
♦ Provisions  
♦ Rate of return on line of credit (when financial) | |
| 4   | ADB’s Operational Effectiveness | ♦ The rational for Bank investment  
♦ The investment’s additionality  
♦ ADB’s at-entry screening  
♦ Incorporation of environmental aspects (*)  
♦ Quality of appraisal  
♦ Monitoring and supervision quality  
♦ The creativity/innovation level  
♦ The extent of the Bank’s catalytic role  
♦ Support to the project after first disbursement  
♦ Client service satisfaction  
♦ Risks and save-guards | |

Note: Indicators in bold are those listed in the TOR of the Evaluation Study. The four indicators highlighted with a (*) are grouped together as one aspect in the TOR.
Illustrative Examples of Outcome from Project Assessments

Figure 4 - Assessment Summary of Project Loan to Company E

Summary of Portfolio Assessment: Project Loan to Company E

<table>
<thead>
<tr>
<th>Project outcome</th>
<th>Project's Development Outcome</th>
<th>Project's Business Success</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Low development outcome, low business success</td>
<td>Low</td>
</tr>
<tr>
<td>Low</td>
<td>Low development outcome, low business success</td>
<td>High</td>
</tr>
<tr>
<td>High</td>
<td>High development outcome, high business success</td>
<td>Low</td>
</tr>
<tr>
<td>High</td>
<td>High development outcome, high business success</td>
<td>High</td>
</tr>
</tbody>
</table>

ADB involvement in project

AfDB’s operational effectiveness low on several indicators
AfDB’s investment outcome uncertain

Source: Evaluation Study Findings
Figure 5 - Assessment Summary of Line of Credit to Company H

Summary of Portfolio Assessment: Line of Credit to Company H

<table>
<thead>
<tr>
<th>Project outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
</tr>
<tr>
<td>Low</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment Additionality on Borrower’s Loan Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>High additionality Low catalytic effect</td>
</tr>
<tr>
<td>Low additionality Low catalytic effect</td>
</tr>
<tr>
<td>Low additionality High catalytic effect</td>
</tr>
<tr>
<td>High additionality High catalytic effect</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ADB involvement in project</th>
</tr>
</thead>
<tbody>
<tr>
<td>AfDB’s operational effectiveness low on several indicators</td>
</tr>
<tr>
<td>AfDB’s investment outcome relatively certain</td>
</tr>
</tbody>
</table>

Source: Evaluation Study Findings
Compatibility Between Existing ADB Guidelines and ECG GPS

The comparison of ADB guidelines and ECG standards is elaborated to disclose to which extent existing ADB guidelines can be used as a basis for developing new evaluation guidelines which, to the extent desirable, are in conformity with ECG GPS. It would be an advantage to use existing guidelines to the extent possible, as these are already known in ADB and thus do not require the same degree of introduction.

The numbering of ECG GPS is from Cohn (2002).

1. XASR and Project Performance Evaluation Report (PPER)

Project Performance Evaluation Report (PPER) in ADB would correspond most closely to the XASR/PER in ECG terminology.

Table 9 – Comparison between ECG XASR and ADB PPER Guidelines

<table>
<thead>
<tr>
<th>GSP no.</th>
<th>ECG GSP (XASR/PER)</th>
<th>PPER Guidelines</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>Timing of consideration for evaluation</td>
<td>Post-evaluation are to be undertaken after the project/programme has been in operation for about two years.</td>
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<td></td>
<td>CED establishes the project maturity status of each investment that has reached</td>
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<td>at least five years past Board-approval, in consultation with the responsible</td>
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<td>operational departments; population for sampling and reporting in the annual</td>
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<td>review (net approvals population, NAP) includes only investments whose related</td>
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<td>projects have reached early operating maturity;</td>
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<td>15</td>
<td>Early operating maturity for financial market projects identifiable sub-projects</td>
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<td></td>
<td>financed by the MDB’s investment, refers to the project year when substantially</td>
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<td></td>
<td>all sub-projects financed by the intermediary have reached at least 18 months</td>
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<td>past the intermediary’s final disbursement of sub-loans; the same test applies to</td>
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<td></td>
<td>an equity fund project’s sub-investments;</td>
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<tr>
<td>16</td>
<td>Early operating maturity for other than these financial markets operations,</td>
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<td>refers to the year during which the substantially completed project will have</td>
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<td>generated at least 18 months of operating revenues for the company, reflected in</td>
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<td>at least two sets of its audited annual financial statements</td>
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<td>35</td>
<td>Development impact and operational effectiveness is included in the evaluation.</td>
<td>MDB investment profitability is not included.</td>
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<td></td>
<td>MDB investment's profitability (contribution to its corporate profitability</td>
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<td></td>
<td>objective), and the MDB's operational effectiveness (execution quality).</td>
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<tr>
<td>36</td>
<td>The operation's performance under each of these dimensions is analysed according</td>
<td>Project performance, borrower performance and bank performance contain a number of sub-criteria (of which some are formulated as indicators)</td>
</tr>
<tr>
<td></td>
<td>to standard indicators, and the operation's performance in each is rated according</td>
<td>which are rated on a scale from 1-4 according to guidelines on the ratings. Some of the sub-criteria might not be relevant for private sector projects and some might have to be added.</td>
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<td>to specified guidelines and benchmarks.</td>
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<td>37</td>
<td>The performance reflected in the indicator ratings is then synthesized in the three dimension ratings.</td>
<td>The ratings are synthesized into three dimensions: project performance, borrower performance and bank’s performance.</td>
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<tr>
<td>38</td>
<td>Development (or transition) outcome encompasses the project’s “results on the ground” relative to the MDB’s mission. Indicators include the project’s contribution to:</td>
<td>The PPER includes project performance evaluation and rating including: relevance, efficacy, efficiency, institutional development impact and sustainability</td>
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<tr>
<td></td>
<td>See standards below for details.</td>
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<tr>
<td>39</td>
<td>(1) The company’s business success (measured per GPS-10 endnote 15); Financial rate of return is calculated as part of ‘efficiency’.</td>
<td></td>
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<td>40</td>
<td>(2) The country’s private sector development and/or its development of efficient capital markets and/or its transition to a market economy; Focuses mainly on the enabling environment.</td>
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<tr>
<td>41</td>
<td>(3) The enabling environment for private sector development; Is part of the assessment of private sector development objectives under ‘efficacy’ – however, efficacy is understood much more broadly.</td>
<td></td>
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<tr>
<td>42</td>
<td>(4) Growth of the economy (proxied by the project’s real economic rate of return); Economic rate of return included as part of ‘efficiency’</td>
<td></td>
</tr>
<tr>
<td>43</td>
<td>(5) The country’s living standards (benchmarked by taking into account—as relevant —the distribution of project costs and benefits among the mission-targeted stakeholder groups directly affected by the project); A number of indicators related to living standards are included as part of ‘efficacy’ (social objectives and targets).</td>
<td></td>
</tr>
<tr>
<td>44</td>
<td>(6) Environmental sustainability (benchmarked against compliance with the MDB’s specified standards in effect at investment approval and also at the time of the evaluation). Part of ‘efficacy’ Where environmental impact assessment has been made at appraisal, an examination of follow-up should be made. It should be considered that in older projects environmental concerns were not given the same attention. No specific reference to ADB standards, but must assume that these are included in EIA. Not specified.</td>
<td></td>
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<tr>
<td>45</td>
<td>Project impacts in each of the above indicators are assessed on a “with vs. without project” basis.</td>
<td></td>
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<tr>
<td>46</td>
<td>MDB investment’s profitability is preferably (best-practice) based on the investment’s net profit contribution, measured in risk-adjusted, discounted cash flow terms with ratings benchmarks set in relation to approval-stage minimum return threshold and use of the MDB’s capital. Investment profitability not included.</td>
<td>Cohn (2002): none of the MDBs follow this standard and the value of retaining it is unclear.</td>
</tr>
<tr>
<td>47</td>
<td>If reliable transaction cost data are not available, good-practice is that the ratings are based upon the investment’s gross contribution performance in relation to corresponding approval standards for minimally satisfactory performance, as a proxy for satisfactory net contribution. Investment profitability not included.</td>
<td></td>
</tr>
<tr>
<td>48</td>
<td>MDB’s operational effectiveness encompasses (separately) the quality, benchmarked against sustainable corporate good practice, of the MDB’s own performance in three indicators: Quite detailed criteria (indicators) on bank performance</td>
<td></td>
</tr>
<tr>
<td>49</td>
<td>At-entry screening, appraisal and structuring work; Included (identification, preparation, appraisal) – however, for the private sector the detailed indicators might have to be modified/supplemented.</td>
<td></td>
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<tr>
<td>50</td>
<td>Its monitoring/supervision quality; Included</td>
<td></td>
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</tbody>
</table>
| 51 | Its role and contribution (the need for the MDB’s participation relative to other available financing, and the quality of the MDB’s delivered additionality over the operation’s life from inception to evaluation); the rating judgment considers compliance with basic operating principles, the operation’s client capacity building objectives (as relevant), its consistency with furtherance of the MDB’s corporate, country and sector strategies, and its client’s service satisfaction. | Some issues are included in the assessment, but there is not an independent focus on the contribution of ADB (as one area of assessment).  
- Consistency with Bank strategies included  
- Client capacity building part of ‘borrower performance’ (indirectly)  
Not included:  
- Operating principles (indirectly)  
- Client satisfaction  
- Additionality |
| 52 | Each of the evaluated performance attributes is assigned a rating according to a matrix that uses a standard four-point scale for indicator ratings and a 4 to 6 point scale for each of the three dimension synthesis ratings. | A rating from 1-4 is applied in a matrix with instructions for rating. |
| 53 | Within the quality-descriptive rating scales (e.g. ranging from unsatisfactory to excellent), there should be balance between positive and negative characterizations (i.e. if there are four ratings, two are less than good and two are good or better). | Is applied |
| 54 | Ratings guidelines are specified in the CED’s instructions. | Is applied |
| 55 | The ratings benchmarks for the project’s financial rate of return after-tax (FRR) are set appropriately in relation to each project company’s cost of capital; | Rating of ERR and FRR is lumped together |
| 56 | The benchmarks for the project’s economic rates of return (ERR) are set appropriately in relation to the MDB’s universal ERR benchmarks. | Rating of ERR and FRR is lumped together |
| 57 | The benchmarks for the project’s investment profitability indicators are set appropriately in relation to the MDB’s return on capital targets or requirements. | Not applied, investment profitability not part pf the evaluation |
| 58 | 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. | Not applied, investment profitability not part pf the evaluation |
| 59 | Ratings of non-quantitative indicators require that relative qualitative judgments be made. The criteria for the judgments should be clearly specified in the instructions and in the CED’s annual review, and reflect the extent to which performance has been consistent with the MDB’s policies, prescribed standards for corporate sustainability, and recognized good practice operational standards. | Criteria for judgements are specified in the instructions.  
Not known whether specified in ADB’s annual review.  
Do not explicitly reflect to which they are consistent with policies etc. |
| 60 | The three dimension ratings are each a summary qualitative performance judgment drawn from a consideration of the underlying indicator ratings, but are not a simple average of the indicator ratings. | Are drawn from underlying ratings.  
Specified that X of Z ratings should be rated as Y for overall rating Y. (not a simple average, but quite precise guidelines). |
The annual review reports the proportions of evaluated operations that achieved, respectively, a win-win (good development/transition outcome coupled with good investment outcome), mixed and lose-lose outcome, along with the proportion of uniformly satisfactory effectiveness indicator ratings and their link to these combined outcome groups.

Concerns annual review – not applicable here.

Cohn (2002) notes that this GPS should be moved to the section on annual synthesis report. He also notes that it is not applicable for an MDB with few projects evaluated.

The annual review also tracks the trend in these combined win-win vs. lose-lose synthesis indicators and related all-satisfactory effectiveness scores (on a rolling three-year sample basis) over several years to show progress.

Concerns annual review – not applicable here.

Cohn (2002) notes that this GPS should be moved to the section on annual synthesis report. He also notes that it is not applicable for an MDB with few projects evaluated.

Lessons learned and recommendations for follow-up:

Lessons learned should derive in part from the performance rating patterns and an analysis of their drivers, particularly in the case of those indicators rated better or worse than satisfactory.

The PPER includes a section and matrix on factors affecting implementation, dividing them into those out of government control, subject to government control and subject to executing agency’s control.

The instructions on lessons learnt does not specify that this should be derived from ratings and drivers.

Lessons should be concise, prescriptive, and placed in the context of each material issue that was encountered in the evaluation.

Section includes recommendations. Only lessons of general relevance are to be included. Recommendations for project-specific follow-up.

The point of view and selectivity should focus on what the MDB might have done to obtain better results from the operation.

Not specified

Standard XASR attachments These provide the basis for review and independent verification of the XASR’s judgments and conclusions. They include:

Details of the project financial and economic rate of return derivations (with transparent assumptions and cash flow statements);

No

A comprehensive summary of environmental, worker health and safety, and social impact compliance information for each safeguard dimension addressed in the MDB effectiveness ratings;

No

The derivation of the MDB’s investment profitability measure with, as relevant, transparent still-to-go investment cash flow estimates and their underlying assumptions.

No (investment profitability is not included)

Source: Evaluation Study Findings

**Conclusions:** The PPER is a comprehensive document of about 20 pages. It includes rating sheets from which the above specific indicators are mainly drawn.

PPER is focused on development outcomes, which is the main new element for ADB private sector evaluation. It appears to have some strength in elaborating on evaluation of this dimension in relation to ECG GPS, which merely points to the dimensions and indicators.
The PPER is not directed specifically towards the private sector investment operations. As it is not directed towards the private sector, there appears to be a need for adjusting some of the indicators of the PPER to be relevant for evaluation of private sector operations. However, it would seem relevant to use the existing general format (including chapters), which is known by ADB staff, as a starting point for evaluation of private sector operations.

2. XASR-A and PCR Evaluation Note

ADB’s Project Completion Report Evaluation Note (PCR-E) corresponds to some extent to a XASR Assessment (XASR-A). The ECG GPS do not specify the criteria of XASR-A, but exhibits are enclosed to provide inspiration.

Table 10 – Comparison Between ECG XASR-A and ADB PCR-E Guidelines

<table>
<thead>
<tr>
<th>ECG standards (XASR-A)</th>
<th>PCR-E guideline</th>
</tr>
</thead>
<tbody>
<tr>
<td>GPS 30: CED conducts an independent review of each XASR to verify:</td>
<td>OPEV is to conduct PCR-E</td>
</tr>
<tr>
<td>- scope responsiveness,</td>
<td>According to guideline PCR-E verifies:</td>
</tr>
<tr>
<td>- evident reliability,</td>
<td>- Scope (Adequacy of analysis of project objectives, execution, social and environmental)</td>
</tr>
<tr>
<td>- impartiality and consistency in rating judgements</td>
<td>- Reliability (Soundness of judgements on project performance, sustainability, performance of bank etc.)</td>
</tr>
<tr>
<td>- appropriateness and completeness of the identified lessons</td>
<td>- Rating objectivity and soundness, consistency of rating</td>
</tr>
<tr>
<td>and prepares an XASR-A</td>
<td>- Adequacy of lessons</td>
</tr>
<tr>
<td>GPS 31: Best practice: For XASRs so-recommended by CED, the relevant vice president or central portfolio or credit manager chairs a review meeting that is attended by the XASR-team and their managers, CED and representatives of relevant specialist departments.</td>
<td>Short report with rating sheet</td>
</tr>
<tr>
<td>GPS 32: Minimum good practice: CED reviews with the XASR team and its manager the basis for its judgment where it comes to differing ratings from those in the final edition XASR</td>
<td>Operations staff has the opportunity to comment on the evaluation note before its finalisation.</td>
</tr>
<tr>
<td>PGS 33: At the end of the programme year, and prior to its review, the CED prepares a ratings validation variance memo and sends it to the responsible senior operations manager, with copies to the relevant XASR teams and their managers.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Evaluation Study Findings

Conclusions: The PCR-E appears to be an appropriate format for making a XASR-A, but the categories of validation need to be changed to correspond to the categories of the self-evaluation report (XASR). It is an advantage, that OPEV staff already knows the format of the PCR Evaluation Note.
Lessons Learnt on How to Apply ECG GPS at ADB

Table 11 – Lessons Learnt on How to Apply ECG GPS at ADB

<table>
<thead>
<tr>
<th>Std. **)</th>
<th>Summary of ECG Standards*)</th>
<th>Member Comments</th>
<th>Team Findings and Conclusions</th>
<th>Team Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>P. 11 section 6.1 Performance Dimensions evaluated and indicators rated:</td>
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<tr>
<td>THE PROJECT'S DEVELOPMENT IMPACT</td>
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<tr>
<td>38 Development (or transition) outcome encompasses the project’s “results on the ground” relative to the ADB mission. Indicators include the project's contribution to:</td>
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<td>Indicator i: The Company’s Business Success: Non-financial: After-tax FRR Financial: Subprojects contribution to FI</td>
<td>● One member: Based on IFC’s practices – other ways of measuring business success</td>
<td>● The evaluation exercise has shown that the “still to go FRR” can rarely reasonably be estimated</td>
<td>● Step 1: Insert actual benefit and cost figures up to present. ● Step 2: On the basis of information collected at self-evaluation set up crude cost and benefit figures ● Step 3: Calculate new maximum and minimum FRR estimate (plus/minus 15-20%)</td>
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<tr>
<td>Indicator ii: The country’s private sector development and/or its development of efficient capital markets and/or transition to a market economy</td>
<td>● None</td>
<td>● Effects in this area can be both positive and negative. Team findings show that several projects attempt to – and sometimes succeed in – influencing government, either directly or through ADB. Often the objective is to obtain special favours for the project or sector in question</td>
<td>● State only effects which can clearly be traced back to the project. Clarify also the specific results of direct ADB interventions, if any.</td>
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<td>Indicator iii: The enabling environment for private sector development</td>
<td>● None</td>
<td>● As above</td>
<td>● Include this indicator in indicator ii.</td>
<td></td>
</tr>
<tr>
<td>Std. **</td>
<td>Summary of ECG Standards*</td>
<td>Member Comments</td>
<td>Team Findings and Conclusions</td>
<td>Team Recommendations</td>
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<td>42</td>
<td>Indicator vi: Growth in</td>
<td>One member: Based on IFC’s practices – other ways of measuring contribution to economic growth also reflect good practice</td>
<td>At the stage where an XASR is normally conducted the ERR cannot yet be calculated.</td>
<td>Use instead average growth in gross profit up till self evaluation</td>
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<td>the economy (proxied by</td>
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<td>the project’s real</td>
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<td></td>
<td>economic rate of return)</td>
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<td>43</td>
<td>Indicator v: The country’</td>
<td>One member: This best practice is based on IFC’s practices – not all MDB’s have this as an objective</td>
<td>In the projects reviewed, effects on living standards rarely take other effects than employment generation into account. In some cases the scope of employment of the local population is, however, also specified.</td>
<td>Appraisal recommendations: Specify in the appraisal the expected improvements in living standards for each target group Break down on: Target groups inside/outside project and quantitative/qualitative indicator The benchmarking recommended is too specific while being also very time consuming. It is recommended to specify the following: Total wages Total wages of unskilled workers Effect of the project in the project area (positive/negative) Effects of eventual displacements (positive/negative) Unintended positive and/pr negative effects.</td>
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<td></td>
<td>s living standards</td>
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<td>The findings show that negative effects on living standards of certain groups also take place.</td>
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<td>(benchmarked by taking</td>
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<td>into account – as</td>
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<td>relevant – the</td>
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<td>distribution of</td>
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<td>mission targeted</td>
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<td>stakeholder groups</td>
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<td>directly affected by the</td>
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<td>project)</td>
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<td>44</td>
<td>Indicator vi:</td>
<td>None</td>
<td>The findings show that the main problem in this area is to ensure that subprojects financed through Lines of Credit adhere to ADB</td>
<td>Appraisal recommendations: Reference to standards to be applied must be stated in the Investment proposal.</td>
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<td>Environmental sustainability</td>
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<td>(benchmarked against</td>
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<td>compliance with the</td>
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<td>MDB’s specified standards</td>
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<tr>
<td>Std. *)</td>
<td><strong>Summary of ECG Standards</strong>)</td>
<td><strong>Member Comments</strong></td>
<td><strong>Team Findings and Conclusions</strong></td>
<td><strong>Team Recommendations</strong></td>
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</tbody>
</table>
| 45     | **Project impacts in each of the above indicators are assessed on a “with vs. without project” basis** | • MC (materially consistent with GPS) requires that this rule be specifically stated | • The approach is correct, and is crucial when assessing for example “crowding out” of local investment. The approach has actually been applied in a PCR report dealing with a severely underutilised expansion project | **Monitoring recommendations:**
  • The OPSD should be informed whenever changes in ADB’s environmental requirements occur |
| 46     | **ADB’s investment profitability is preferably (best-practice) based on the investment’s net profit contribution, measured in risk-adjusted, discounted cash terms with ratings benchmarks set in relation to approval-stage minimum return threshold and the use of ADB capital** | • Since non of the members follow this standard, the value of retaining it is unclear. | • Previsions as regards profit development can rarely be used to evaluate a project’s profitability – the Team findings show that this problem is intensified in the cases where the project has already deviated substantially from previsions. The discount rate to be applied cannot be determined in a non-arbitrary manner | **Appraisal recommendations:**
  This approach requires that the “without project” situation be stated specifically in the appraisal. The IPs with which the Team is conversant only state the “before-after” situation. **XASP recommendations:**
  The approach is most easily applied in expansion projects. For e.g. new projects a first attempt to use the approach should, however, be made. The “before-after” situation should always be assessed too in order to facilitate evaluation and ensure common standards. **Monitoring recommendations:**
  • Step 1: Insert actual benefit and cost figures up to present.  
  • Step 2: On the basis of information collected at self-evaluation set up crude cost and benefit projections  
  • Step 3: Calculate maximum and minimum net profit contribution (+ plus/minus 20%)
<table>
<thead>
<tr>
<th>Std. **</th>
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<tbody>
<tr>
<td>47</td>
<td>If reliable transaction cost data are not available, good-practice is that the rating are based upon the investment’s gross contribution performance in relation to corresponding approval standards for minimally satisfactory performance, as a proxy for satisfactory net contribution</td>
<td>• None</td>
<td></td>
<td>Both indicators (point 46 and point 47) should be substituted with the procedure described above</td>
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<tr>
<td></td>
<td><strong>ADB’s OPERATIONAL EFFECTIVENESS</strong></td>
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</tr>
<tr>
<td>48</td>
<td>ADB’s operational effectiveness encompasses (separately) the quality, benchmarked against sustainable corporate good practice, of the ADB’s own performance in three indicators:</td>
<td>• One member: This GPS is unclear because the three indicators are not mentioned in point 48</td>
<td>• None</td>
<td>• None</td>
</tr>
<tr>
<td>49</td>
<td>Indicator i: At-entry screening, appraisal and structuring work</td>
<td>• None</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50</td>
<td>Indicator ii: Its monitoring and supervision</td>
<td>• One member: This GPS includes impact of ADB expertise and loan conditions on the project, but considers that these indicators relate to entry, rather than supervision. GPS needs to be clarified to avoid confusion</td>
<td>• Before the introduction of the Annual Supervision Reports (ASR), monitoring appear to have been rudimentary and monitoring reports rarely elaborated. This situation has improved considerably, but the present ASRs are still too focused on the repayment performance of the projects.</td>
<td>• More appropriate monitoring guidelines have been elaborated by the Team</td>
</tr>
<tr>
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</tr>
</tbody>
</table>
| 51      | Indicator iii: Its role and contribution (the need for the ADB’s participation relative to other available financing, and the quality of the ADB’s delivered addi tionality over the operation’s life from inception to evaluation); the rating judgement considers compliance with basic operating principles, the operation’s client capacity building objectives (as relevant), its consistency with the furtherance of the ADB’s corporate, country and sector strategies, and its client’s service satisfaction | • One member considers this GPS to be very theoretical. Another disagrees. | • The team has assessed the subindicators mentioned as well as others during the field studies. The indicators selected are stated in the Team Recommendations. | • This indicator is too limited as well as too compact. It should be substituted by the following indicators:  
  • ADB’s additionality  
  • The rational for ADB’s investment in relation to corporate, country and sector strategy  
  • ADB’s catalytic role  
  • Support to the project since inception  
  • Client service satisfaction  
  • Relevance of safeguards  
  • The team found that in order to determine ADB’s additionality, the following steps should be applied:  
    Step 1: An alternative to ADB is identified (e.g. local investor, IFC, none).  
    Step 2: State the situation with ADB and with alternative regarding:  
    • Cost of investment  
    • Support to management  
    • Support to institution-building |

**PERFORMANCE RATING AND BENCHMARKS**

| 52      | Each of the evaluated performance attributes is assigned a rating | • The GPS do not call for harmonisation of rating categories. | • There is clearly a need for harmonisation of rating categories. | • The rating categories recommended are: |
### Summary of ECG Standards*

<table>
<thead>
<tr>
<th>Std. **</th>
<th><strong>Summary of ECG Standards</strong></th>
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</tr>
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<tbody>
<tr>
<td>53</td>
<td>According to a matrix that uses a standard four-point scale for indicators ratings and a 4 to 6-point scale for each of the three dimensions synthesis ratings. Absent this harmonisation, the Members cannot deal with the Development Committee Task Force’s complaint about the impossibility of comparing results in a common language.</td>
<td>None</td>
<td>None</td>
<td>Excellent, Satisfactory, Partly unsatisfactory, Unsatisfactory</td>
</tr>
<tr>
<td>54</td>
<td>Within the quality-descriptive rating scales (e.g. ranging from unsatisfactory to excellent) there should be balance between positive and negative characterisations (i.e. if there are four rating, two are less than good and two are good or better).</td>
<td>None</td>
<td>The CED instructions are presented in Exhibit 7 in “ECG”. The Team finds that the instructions focus too strongly on the FRR and ERR indicators which the field visits have shown cannot be calculated at the time of the XASR evaluation.</td>
<td>In agreement</td>
</tr>
<tr>
<td>56</td>
<td>The rating benchmarks for the project’s financial rate of return after-tax (FRR) are set appropriately in relation to ADB’s universal ERR benchmarks.</td>
<td>One member: this GPS is too detailed and not relevant for good practice. Several institutions do not have universal ERR benchmarks.</td>
<td>The use of a universal ERR should not be applied, especially not at a stage where OPSD’s investments are likely to have a range of ERR-unrelated objectives, e.g. gaining experience in new sectors and countries, etc.</td>
<td>This GPS should be left out.</td>
</tr>
<tr>
<td>57</td>
<td>The benchmark for the project’s investment profitability indicators are set appropriately in relation to ADB’s return on capital targets or requirements. <strong>EP Bench comments:</strong></td>
<td>Standard should be revised. At present, it is meaningful only with respect to calculation of net investment profitability. Standard should read: “the benchmarks for the operation’s profitability to the MDB are set...” This GDP refers to the profitability</td>
<td>As can be seen from the recommendation, there is reason to apply individual “return on capital” targets for each project for the reasons stated in Team Comments to point 56.</td>
<td>The GPS should read “The benchmark for the operation’s profitability to ADB are set appropriately in relation to ADB’s “return on capital” target for this specific project.</td>
</tr>
<tr>
<td>Std. **)</td>
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</table>
| 58       | 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 | One member: This GPS is too detailed and not relevant for good practice  
- Not relevant for institutions that do not make equity investments  
- Many institutions do not determine fixed rate equivalents for individual loans at approval | All sample projects with ADB loans have variable rates. This is also the case for projects investigated during the desk study | The recommendation does not appear relevant for OPSD, as most loans feature variable interest rates.  
- Equity investment rates of return should be benchmarked against average performance for similar projects in the country in question |
<p>| 59       | Rating of non-quantitative indicators require that relative qualitative judgements be made. The criteria for the judgements should be clearly specified in the instructions and in the CED’s annual review, and reflect the extent to which performance has been consistent with ADB’s policies, prescribed standards for corporate sustainability, and recognised good-practice standards. | None | In one of the projects investigated by the Team, a “Best practice management reporting scheme” had been elaborated | In areas where qualitative indicators are applied, e.g. “Customer Satisfaction”, a checklist stating the aspects to be covered should at a minimum be elaborated. |
| 60       | The three dimensions ratings are each a summary qualitative performance judgement drawn from | A major problem is, however, how to move from the individual indicator ratings to the synthesis rating for | The Team recommends that the following test is carried out: |</p>
<table>
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<tr>
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<td>a consideration of the underlying indicator ratings, but are not a simple average of the indicators ratings</td>
<td></td>
<td>each of the three dimensions and from this to the overall rating of the project. IFC has elaborated a range of indicators for each dimension (or ECG Building Block), but there are no rules regarding the linking of the individual indicators (for example through weighting) to the blocks.</td>
<td>Step 1: Attach a figure to each of the four rating groups: Excellent, satisfactory, partly unsatisfactory, unsatisfactory. Step 2: Apply this figure to each sub-indicator. Step 3: For each dimension, base the rating on the average of the sub-indicators. Step 4: Calculate overall project performance as the average of the value attached to each dimension. Step 5: Compare the result to the non-average judgement (“translated” into figures according to the procedure in Step 1). Step 6: Use both results when comparing projects.</td>
<td></td>
</tr>
</tbody>
</table>

61. The annual review reports the proportion of evaluated operations that achieved, respectively, a win-win (good development/transition outcome coupled with good investment outcome) mixed and lose-lose outcome, along with the proportion of uniformly satisfactory effectiveness indicator ratings and their links to these combined outcome groups.

- One member: this standard reflects IFC’s approach, which does not necessarily define good practice.
- If retained, the GPS should be moved to the sub-section on annual synthesis reporting.
- None

- The GPS should be moved to the sub-section on annual synthesis reporting.
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| 62 | The annual review also tracks the trend in these combined win-win vs. lose-lose synthesis indicators and related all-satisfactory effectiveness scores (on a rolling three-year sample basis) over several years to show progress | • “All-satisfactory effectiveness score” refers to assignment of satisfactory effectiveness scores for screening, supervision & role. Text should be clarified  
• One member: this standard reflects IFC’s approach, which does not necessarily define good practice  
• If retained, this GPS should be moved to the sub-section on annual synthesis reporting.  
• Not applicable for an institution with a small number of evaluated projects | • None | • Not applicable to OPSD, until the number of projects has substantially increased. |
| 63 | Lessons learned should derive in part from the performance rating patterns and an analysis of their drivers, particularly in the case of those indicators rated better or worse than satisfactory | • Text should be clarified  
• Where lessons are identified, rating based on sample  
• One member: this standard reflects IFC’s approach, which does not necessarily define good practice | • No comments | • In agreement |
| 64 | Lessons should be concise, prescriptive, and placed in a context of each material issue that was encountered in the evaluation | • Where lessons are identified, ratings based on sample | • No comments | • In agreement |
| 65 | The point of view and selectivity should focus on what ADB might have done to obtain better results from the operation | • Where lessons are identified, ratings based on sample | • No comments | • In agreement |

**Notes:**


**) Refer to COHN Annex 5. 

***) See ADB: “Procedures Manual for the Administration of private Sector Loans and Equity Investments” (undated). 

*Source*: Evaluation Study Findings
List of ADB, ECG and IFC Documents Consulted

ADB (undated). Procedure Manual for the Administration of Private Sector Loans and Equity Investments. OPSD

ADB (undated). Mandate of the Private Sector Department

ADB (undated). Function Statement and responsibilities of the Operations Evaluation Department (OPEV


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ADB (March 1995). Equity Investment Policy guidelines


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ADB (1999). The vision of the African Development Bank


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ADB (2001). Handbook on Stakeholder Consultation and participation in ADB Operations, OESU


ADB (June 2001). Environmental and Social Assessment Procedures, Public Sector Operations of the African Development Bank, OESU


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ADB (October 2001). Portfolio Management Manual, OPSD

ADB (October 2001). Quarterly Portfolio Report, 3rd Quarter 2001, OPSD

ADB (November 2001). Study on the Restructuring of the Private Sector Department, Terms of reference, November 2001

ADB (December 2001). Guidelines for Private Sector Loans (ADB/BD/IF/201/239)

ADB (December 2001). Private Sector Portfolio Credit Risk Review, Risk Management Unit

ADB (2002). 2001-2002, Annual Report, Office of the Executive Director for Denmark, Finland, India, Norway, Sweden and Switzerland

ADB (March 2002). General Guidance for Doing Business with the ADB Group, Office of the Executive Director for Denmark, Finland, India, Norway, Sweden and Switzerland


ADB (March 2002). Quarterly Portfolio Report, 1st Quarter 2002, OPSD

ADB (April 2002). OPSD Flash Report March 2002 - Issue no 11, Inter-Office Memorandum

ADB (May 2002). Etude de l’efficacité et de l’efficacité des systèmes de suivi-évaluation des projets financés par le groupe de la Banque Africaine de Développement, Rapport Provisoire by E. Koffi-Tessio, Consultant, OPEV.


IFC (undated). XPSR Program Overview (www.ifc.org/oeg/xpsrs)


