



February 2007

Guidelines for Preparing Performance Evaluation Reports on Nonsovereign Operations

Operations Evaluation Department

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ADD	–	additionality
bp	–	basis point
CAGR	–	compound annual growth rate
COSO	–	Central Operations Services Office
CSP	–	country strategy and program
CTL	–	Controller’s Department
DEC	–	Development Effectiveness Committee
DMC	–	developing member country
ECG	–	Evaluation Cooperation Group
EIRR	–	economic internal rate of return
ERD	–	Economics and Research Department
EROIC	–	economic return on invested capital
ESHS	–	environmental, social, health, and safety
FIRR	–	financial internal rate of return
GPS	–	good practice standards
IFRS	–	international financial reporting standards
MDB	–	multilateral development bank
NSO	–	nonsovereign operation
OED	–	Operations Evaluation Department
OEM	–	Operations Evaluation Mission
OCO	–	Office of Cofinancing Operations
PPER	–	project performance evaluation report
PSD	–	private sector development
PSO	–	Private Sector Operation
PSIM	–	Private Sector Investment Management
PSOD	–	Private Sector Operations Department
RD	–	regional department
RMU	–	Risk Management Unit
ROIC	–	return on invested capital
RRP	–	report and recommendation of the President
RSDD	–	Regional and Sustainable Development Department
SME	–	small and medium-sized enterprise
SPD	–	Strategy and Policy Department
WACC	–	weighted average cost of capital
XARR	–	extended annual review report

Key Words

evaluation guidelines, non-sovereign operations, private sector operations, performance evaluation reports, private sector development, development impact, additionality

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I. PURPOSE, PROCESS, EVALUATION AND DISSEMINATION

A. Purpose, Scope and Organization of NSO Evaluation in ADB

1. The Asian Development Bank (ADB) conducts both sovereign and nonsovereign operations (NSO). An NSO is defined as an ADB-financed transaction in the form of a guarantee, loan, or equity investment, with a subsovereign, state-owned enterprise, other public private entity, or private sector entity as obligor or investee, normally without direct sovereign indemnity. These guidelines (the Guidelines) have been prepared to facilitate evaluations of NSOs by the Operations Evaluation Department (OED).¹

2. Evaluations are a key part of ADB's project cycle. They have two main elements: (i) self-evaluations presented in extended annual review reports (XARRs)² prepared by the Private Sector Operations Department (PSOD) and regional departments (RDs) for NSO and other projects, and (ii) independent evaluations of NSOs presented in project performance evaluation reports (PPERs) prepared by OED. ADB's performance evaluation framework uses these reports as the basis for strengthening accountability and identifying lessons that can be used to inform strategy and improve the future operations of ADB.

3. The Guidelines are a step toward harmonizing ADB's NSO evaluation procedures with those of other multilateral development banks (MDBs) in the Evaluation Cooperation Group (ECG). NSO evaluations will be in line with the "harmonization" good practice standards (GPS) of ECG for private sector evaluations. These PPER guidelines are based on the GPS adopted by the ECG in 2006, and are expected to be updated periodically following reviews of the GPS.³

4. The Guidelines apply to all PPERs for NSOs prepared by OED, which is independent of management and reports directly to ADB's Board of Directors (the Board). PPERs are not prepared by OED for all projects and OED can validate the XARRs⁴ prepared by the Private Sector Operations Department (PSOD) and the regional departments (RDs). The XARR⁵ is an important input to the preparation of PPERs on NSO by OED. PPERs and XARRs contribute to broader OED studies, including country and sector evaluations, thematic and special evaluation studies, and OED's annual evaluation review.

5. The basis for successful evaluation reports for NSOs is established (i) at initial project screening, (ii) during project preparation, and (iii) at project approval by Management and the Board. Reports and recommendations of the President (RRPs) for new investments define the project rationale and objectives. Proposals for new investments are presented in light of ADB's mandate and its country and sector policies and strategies, with reference to the business concept and investment rationale. In addition, RRP from 2005 onwards present information on targets and how ADB intends to monitor and measure the achievement of wider development objectives of an NSO, the project's business performance, and risks and returns from the investment accruing directly to ADB.

¹ OED reports directly to the Board, and is independent of ADB Management.

² XARRs are a tailored form of the project completion report (PCR) format used by RDs for reviewing sovereign guaranteed transactions.

³ The most recent benchmarking review was in 2005. The next review of the ECG GPS for evaluation of private sector investment operations will take place by the end of 2009.

⁴ XARRs were formerly known as PCRs. Details on how OED undertakes, reviews, and validates XARRs are provided in paras. 18–19.

⁵ Guidelines for preparing XARRs that cover nonsovereign operations are presented in ADB's *Project Administration Instructions*.

6. The project objectives identified at the time of RRP approval provide the basis for evaluating the wider development outcomes and relevance of the project from a historical perspective, and for assessing whether it achieved what it set out to do. The evaluation also reassesses the rationale and objectives from the present perspective, taking into account events that occurred after approval, such as consumer growth, increasing competition or regulation in the industry, a changing business environment in the MDBs, or an evolving ADB policy. PPERs will address a project's relevance and performance in light of conditions at the time of approval, and subsequent developments.

7. Performance evaluation using the adopted ECG standards involves assessing and rating NSO projects on the basis of:

- (i) development impact,
- (ii) ADB investment profitability,
- (iii) ADB work quality, and
- (iv) ADB additionality.

8. In addition, PPERs include an assessment of:

- (v) identified lessons and their dissemination, and
- (vi) follow-up actions and recommendations.

9. The evaluating team rates the project's performance for the first four dimensions, and assigns an overall performance rating. The evaluation dimensions and rating standards are identical for PPERs and XARRs, and details on their application are presented in Appendix 3.

B. Selection and Sampling of NSOs for Evaluation

10. OED describes the criteria and sampling methods used to identify NSO evaluations in its annual work plans and published reports. Selection of completed NSOs ready for evaluation is in accordance with the applicable "harmonization" GPS of ECG. These GPS include sufficient operating time and availability of records for completed investments to allow meaningful evaluations. For direct investments, the minimum elapsed time before evaluation is 18 months of operating revenues, with audited accounts for at least 12 of these months. For investments funded via financial intermediaries, the minimum elapsed time is 30 months after the final material subproject disbursement. When OED is preparing annual work plans for conducting reviews, it will (i) consult with PSOD and RDs that have NSOs on the coming year's mature projects that will be subjects of XARRs, and (ii) identify sampling procedures for validating XARRs and preparing PPERs.

C. Client Support to Evaluations

11. In addition to requiring the submission of standard technical and financial reports by nonsovereign borrowers, investees and intermediaries, ADB ensures in its investment agreements that clients accept and will support its NSO evaluations. The arms-length approach to NSO evaluation differs from the participatory approach of ADB to public sector evaluations, where governments and other stakeholders are regularly involved at all stages of the review. Although OED client contact is more limited than public sector evaluations, NSO evaluation findings that are relevant to the business operations and risk profile can strengthen PSOD and RDs in their monitoring and partner roles in contacts with clients.

12. An arms-length approach is adopted because of the nature of the NSO evaluation and the need for confidentiality. To a large extent, all four of the NSO evaluation dimensions (para. 7) lie beyond the control of the enterprise and in most cases, management and operations will not be directly concerned by these wider development objectives. The level of client consultation will also be limited by concerns about confidentiality. As mentioned in para. 18, apart from the clients' clearance for public disclosure of evaluation reports or abstracts, OED will form only limited contacts with NSO clients. For these reasons, PPERs will normally be prepared no more than once in the project lifecycle and ADB will not seek regular feedback from investees, stakeholders, or sponsors to draft or complete NSO PPERs.

D. Approach Papers in the Evaluation Process

13. Before a PPER is prepared, the leader of the operations evaluation mission (OEM) prepares an approach paper. The OEM leader consults with PSOD and other relevant ADB departments in the evaluation process before writing the approach paper and seeking approval of the Director General, OED. The paper highlights the approach and key issues that will be addressed in the evaluation, and will typically include the following information: (i) key issues identified in project documents such as the RRP and XARRs, PSOD monitoring reports, and Risk Management Unit (RMU) reports; (ii) the proposed PPER approach in evaluating the project, time schedule, and details on the support required from investees and intermediaries; (iii) pre-mission questionnaires that will be supplied to the client companies and other related parties; (iv) composition of the OEM team and scheduled tasks, including terms of reference for proposed consultants; (iv) a note on other ADB operations, including technical assistance and public sector loans in the country and sector that might justify an evaluation to identify possible synergies with the NSO; and (v) a budget outline for the input of ADB person-days, cost of travel, and requirements for any external consultants.

E. Format, Peer Review and Finalization of PPERs

14. The style and format of PPERs shall adhere to ADB's *Handbook of Style and Usage*. The length of the main text ranges from 12 to 18 pages, single-spaced, plus appendixes. Reports reflect the terminology of ADB and PSOD for NSO and the ECG GPS used for private sector evaluation.

15. The project design and monitoring framework included in ADB's public sector RRP may need to be slightly modified for NSO projects. The project design and monitoring framework was first developed for and can be more easily applied to public sector operations, where the project design's link to performance is significantly different from and generally more direct than that for NSOs. For example, "outcome" (referring to the immediate objectives of the project) can relate to the immediate business performance of the private sector project, while "impact" (referring to the medium and/or longer term results) usually relates to impact beyond the private sector enterprise or to its "externalities".

16. A PPER for NSO should follow the structure outlined in these Guidelines and illustrated in the standard table of contents presented in Appendix 1. Such a structured approach helps ensure consistency between evaluations, and allows users to locate information within the report easily. Nevertheless, there may be some variations in the proposed approach to suit the character of the particular projects. While the Guidelines aim to assist analysis and report preparation, the final responsibility for preparing the report remains with the evaluators who need to exercise their best judgement, focus on significant issues, and avoid repetition or

mechanical “box filling”. Reports may quote from or cross-reference other relevant ADB reports with due regard given to disclosure constraints that apply to private sector operations.

17. A draft of the PPER report is initially peer-reviewed within OED and then circulated to heads of departments and offices seeking interdepartmental comments (Appendix 9). The interdepartmental circulation list for the XARR includes:

- (i) Private Sector Operations Department;
- (ii) Strategy and Policy Department (SPD), if the project has policy or strategy related issues;
- (iii) Regional and Sustainable Development Department (RSDD);
- (iv) Office of Cofinancing Operations (OCO), if the project is cofinanced;
- (v) Economics and Research Department (ERD), if the project has economic methodological issues;
- (vi) Controller’s Department (CTL), if the project has funding issues;
- (vii) Central Operations Services Office (COSO), if the project has procurement issues;
- (viii) Risk Management Unit (RMU);
- (ix) the RD concerned; and
- (x) the Resident Mission concerned.

18. PPER drafts are sent in full to investees, stakeholders, and/or sponsors for feedback and identification of items that should be redacted, if any, from the publicly available version of the PPER for reasons of confidentiality. Following interdepartmental comments (and, if required, an interdepartmental meeting) and receipt of stakeholder responses, the PPER is updated, edited,⁶ finalized, and submitted to the Director General and relevant division head of OED for approval to circulate to Management and the Board. OED will seek client clearance and, if necessary, prepare a redacted version of the PPER before circulating the final PPER to the parties listed in para. 19, using the referral letter presented in Appendix 10.

19. A limited number of copies of the PPER will be printed and all copies will be numbered. The final PPER will be bar coded and circulated to ADB’s Board of Directors (the Board and senior management team, with a cover memorandum noting confidentiality and restricted distribution requirements (Appendix 11)). The circulation list for the finalized PPER includes:

- (i) Board of Directors;
- (ii) the Vice President concerned;
- (iii) the Vice President Finance and Administration;
- (iv) Directors General or Heads of PSOD, SPD, RSSD, OCO, ERD, CTL, COSO, RMU (as required);
- (v) Directors General of regional department/s concerned; and
- (vi) Resident Mission Country Director concerned.

⁶ Sufficient time needs to be included to accommodate a minimum circulation time of 5–10 days for interdepartmental comments, and 10 working days for editing.

F. Review and Validation of Extended Annual Review Reports (XARRs) on NSO

20. As explained in the project administration instruction for XARRs, OED reviews all XARRs on NSO. XARR reviews are conducted either as part of the process of preparing follow-on PPERs or on a stand-alone basis. The stand-alone review by OED will be conducted in consultation with PSOD, and aims to verify the scope, responsiveness, evident reliability of the analysis, impartiality and consistency of the ratings, and the appropriateness and completeness of the lessons identified. In addition, OED will validate the ratings in a separate XARR validation report prepared for each XARR.

21. Because PSOD is unable to start preparing XARRs for all NSO projects immediately, OED and PSOD have agreed to a phased implementation program. The following targets for XARR completions for new NSO projects ready for evaluation have been agreed: (i) an increase from 25% in 2005 to 40% in 2006, (ii) a further increase to 60% in 2007, and (iii) 100% completion in 2008. The GPS of ECG require 60% project coverage by OED in each year in the form of OED-validated XARRs, and OED-prepared PPERs.

G. Reflection of NSO Evaluation Outcome in Annual Reports by OED, Review of RRs, and Monitoring of Recommendations to Management

22. In accordance with the GPS of ECG, OED provides full information on the selection, evaluation process, rating standards, and aggregation of evaluation outcomes for NSO in its operations manual and annual evaluation reviews. This approach is adopted to ensure transparency in the selection of projects for evaluation, and to help determine the resulting confidence levels and sampling errors applicable to the project success rates. OED reviews draft RRs for new NSOs to ensure they reflect the relevant lessons from past evaluations. The annual reports on loan and technical assistance portfolio performance prepared by OED include follow-up reviews of the recommendations to Management made by OED in the previous year.

H. Dissemination and Disclosure of NSO Evaluation Reports

23. In line with ADB's disclosure policy, public sector PPERs are made available to clients, stakeholders, and the public after the reports have been approved by the Director General, OED. ADB's *Public Communications Policy* identifies some exceptions in the case of PPERs for NSO projects.⁷ In the light of these confidentiality provisions, OED has issued a memorandum that provides, among others, for:

- (i) confidentiality notes on internally circulated evaluation reports on private sector operations, as shown in standard formats for draft and final circulation memorandums (Appendixes 9 and 11);
- (ii) review by PSOD and the RD concerned of evaluation report drafts to propose and justify redactions, if any, to ensure that information disclosure will not compromise ADB's NSO, including by breach of confidentiality undertakings;
- (iii) seeking of advice by OED from the Office of the General Counsel on a case-by-case basis to clarify potential legal disclosure concerns;
- (iv) referral to the Development Effectiveness Committee (DEC) to arbitrate if OED and PSOD cannot agree on required deletions or redactions in PPERs;

⁷ See paras. 126 (8) and (9) of ADB. 2005. *Public Communications Policy*. Manila.

- (v) forwarding of the report to the borrower or investee, who will be requested to identify material to be redacted for reasons of confidentiality before the document is made public, if any (Appendix 10);
- (vi) subsequent posting of summaries of redacted private sector PPERs on the ADB website; and
- (vii) numbering and bar coding of all internally circulated evaluation reports on private sector operations, and attachment of appropriate circulation restrictions and price sensitivity warnings on any evaluation reports that concern publicly listed enterprises.

II. SCOPE AND CONTENT OF NONSOVEREIGN PPERs

A. Table of Contents

24. The standard cover, table of contents and introductory pages of PPERs are presented in Appendixes 1 and 2. The main text of a PPER is typically 12–18 pages, single spaced, plus appendixes
25. The chief elements of each chapter and section heading in a PPER are as follows.

B. Executive Summary

26. The executive summary provides a brief overview of the project in its development and investment environment and business context. This review is followed by a summary of the main evaluation findings, the individual performance ratings, the overall rating, and the main justifications for the derived results. The executive summary concludes by identifying the main issues, lessons, and any follow-up actions. The typical length of the executive summary in PPERs is two pages, including a standard table that presents the main evaluation ratings (Appendix 8).

C. Chapter I: The Project

27. Typical sections included in this chapter are project background, project features, and progress highlights. The context (i.e., the investment environment and the particular business and development conditions and challenges) forms an essential part of the project background. The length of the chapter should not normally exceed two pages. Any additional details can be provided in appendixes.

D. Chapter II: Evaluation

28. The evaluation procedure is described in this chapter and ratings standards used in the analysis are presented in Appendix 3.

1. Project Rationale and Objectives

29. This section reiterates and comments on the project rationale and objectives presented at the time of approval. The rationale and objectives are then revisited in light of the development challenges arising in the investment environment and business concept, as seen against current ADB strategies and policies. The section ends with a conclusion on the relevance of the operation and its structure from both historic and current perspectives. The evaluation does not

assign a separate rating to the fulfilment of objectives, and the information serves as background to the subsequent evaluations in sections 2–5 below.

2. Development Impact

30. Development impact is evaluated according to: (i) private sector development (PSD); (ii) business success, (iii) economic development, and (iv) environment, social, health, and safety (ESHS) performance.

a. Private Sector Development

31. The analysis of the impact beyond the project includes both positive and negative contributions to factors such as private sector expansion, competition and improved functioning of markets, new business practices, institutional development, new standard setting, and regulatory changes. Impacts can arise via demonstration effects, links, and other influences that can provide a key development justification for NSOs.

32. The magnitude of these PSD “externalities” can be difficult to define and quantify and they are typically evaluated on the basis of a judgmental and qualitative analysis. The PSD checklists of indicators and ratings are presented in Appendixes 5–7 to guide the evaluation of NSO projects and reflect likely impacts of ADB financing in infrastructure projects, private equity funds, and financial intermediaries. The checklists include a justification column that is used for assigning ratings, and they will normally be appended to evaluation reports.

b. Business Success

33. Financial performance is the key condition used to evaluate the business success of NSO projects. Performance is typically assessed by revisiting the approval assumptions and recalculating the project-specific real financial internal rate of return (FIRR) relative to the weighted average cost of capital (WACC).

34. Where the NSO facility is provided in the form of a corporate loan or equity investment that is not specific to a particular investment, or where the incremental cash flows cannot be identified, the real financial return on invested capital (ROIC)⁸ may be used as a proxy for FIRR. Other alternative proxies that can potentially be used for funding facilities that are not project-specific include performance measures taken from the approval documents.

35. For investments undertaken via financial intermediaries such as private equity funds, which have clearly identifiable financial subproject performance measures, a broad judgment can be provided on the expected range within which the combined FIRR would be likely to fall. Other proxies for investments via financial intermediaries include measures such as the net equity FIRR to investors. Similarly, profit center information may help derive other proxies for assessing a project’s contribution to other business goals articulated at approval.

36. Appendixes 3 and 4 provide further details on the calculation of the FIRR and ROIC. The FIRR and WACC evaluation standards are generally in line with the GPS defined by the ECG on the harmonization of NSO evaluations.

⁸ ROIC equals the real FIRR on all invested capital in the enterprise, disregarding loan interest and dividend payments.

c. Economic Development

37. Project development outcomes are partly evaluated on the basis of their contribution to economic output and growth. The recalculated real economic internal rate of return (EIRR) is a key measure of economic performance. Like the FIRR, economic performance is assessed by revisiting the approval EIRR calculations and assumptions and considering actual performance relative to historical and revised projections. The EIRR calculation can be used in evaluating both green-field and expansion investment projects where the incremental costs and benefits can be reasonably separated and assessed. For corporate loans or equity investments that are not specifically assigned to particular investment projects, the real economic return on invested capital (EROIC) may be used. Other proxy measures of economic performance can be taken from the approval documents.

38. For ADB investments made via financial intermediaries with sub-project's whose performance is clearly identifiable and can be evaluated in general economic terms, a broad judgment may be presented on the range within which the combined EIRR would be likely to fall. Where there are clearly observable project cash flows, the net equity FIRR can be calculated and then adjusted for key economic implications derived from the subproject portfolio characteristics.

39. Appendixes 3 and 4 provide further details on the calculation of EIRR and EROIC. General and sector-specific guidelines on economic analysis can be obtained from ADB's guidelines for economic analysis of projects. If the evaluation report uses a proxy for EIRR, or if it presents qualitative justifications for the economic sustainability rating, an explanation should be provided for why it was not feasible to make an EIRR calculation to help evaluate the project.

d. Environment, Social, Health, And Safety Performance

40. ESHS performance is evaluated in accordance with ADB's policies and the characteristics of the operation. The evaluation identifies significant impacts of both the project and the remedial measures that are put in place to comply with standards for factors such as air, noise, groundwater, and soil pollution. Health hazards to workers or the public are identified, and the effectiveness of the measures to mitigate negative effects is assessed. The evaluation provides details on levels of compliance with national legislation, regulations and standards, and parameters contractually required by ADB. The evaluation then reviews the adequacy of the mitigation measures, the environmental management and reporting requirements, reporting systems, and actual reporting arrangements. The quality of ADB's monitoring system also needs to be assessed.

41. The evaluation of social impacts focuses on the level and distribution of direct and indirect economic costs and benefits, and assesses adherence to ADB's policies and conditions on resettlement and the protection of indigenous peoples' interests. A stakeholder analysis and poverty reduction assessment that reflects the size and character of the NSO is undertaken. This analysis includes an assessment of aspects such as the effectiveness of targeted job creation initiatives relative to the amounts of invested capital. NSO evaluations differ from public sector assessments since public sector projects can generally be designed, structured, and conditioned to achieve specific socioeconomic objectives directly, whereas NSO projects tend to have more indirect impacts, such as income effects arising from economic growth.

42. ESHS performance evaluations are most relevant for large private physical infrastructure projects where significant environmental and safety impacts may justify a comprehensive

evaluation. In the case of investments via intermediaries (such as private equity funds and small and medium-sized enterprise credit lines), the evaluation is more likely to focus on compliance with the agreed investment policy, ethical standards, and exclusion lists. The type of investment environment and selection of geographic focus or target groups, such as small and medium-sized enterprises or micro-credit finance operations, will also influence the extent to which the evaluation focuses on issues such as positive and negative impacts in areas such as ethnicity, gender, child protection, and public health.

43. Appendix 3 provides further details on how the ESHS ratings will apply to a NSO project.

3. ADB Investment Profitability

44. The evaluation of ADB's investment profitability is based on the investment's gross profit contribution (net of financing costs and loss provisions, but before deducting administrative costs). A more exact measure would be the net profit contribution after deducting administrative costs, but this measure can only be applied if and when ADB introduces cost accounting with project-based time reports from operational and support departments. Because of the stage of development of ADB's accounting system, it is not yet possible to define targets for NSO investments on return on capital employed.

45. For these reasons, the rating standards for the ADB investment returns presented in Appendix 3 are provisional.

4. ADB Work Quality

46. The review of ADB work quality is independent of the other PPER ratings. The work quality evaluation concerns the following issues: (i) the screening, appraisal and structuring of the operation; (ii) monitoring and supervision; and (iii) ADB's role and contribution. This evaluation seeks to determine the magnitude of ADB's contribution throughout all stages of the project lifecycle. The evaluation needs to consider compliance with ADB's corporate, country, and sector strategies in terms of addressing particular development challenges, while continuing to meet client satisfaction requirements on service quality.

47. The rating standards for assessing ADB's work quality are presented in Appendix 3.

5. ADB Additionality

48. Additionality is evaluated according to: (i) the extent to which ADB finance was a necessary condition for the timely realization of the project, through direct mobilization of funds and/or indirectly by providing comfort to other financiers, and (ii) ADB's contribution to the design and functioning of the project to improve development impact.

49. The rating standards for assessing ADB's additionality are presented in Appendix 3.

6. Overall Assessment

50. The overall rating of the NSO project is derived from by the underlying ratings applied to the four dimensions of an NSO evaluation: (i) development impact, (ii) ADB investment profitability, (iii) ADB work quality, and (iv) ADB additionality. In one or two paragraphs, this section highlights the key justifications for the overall rating, as seen from a "with and without project" perspective. As discussed in Appendix 3, Section F, the overall ratings matrix assigns

ratings ranging from “unsatisfactory” to “excellent” for each of the four NSO dimensions, and derives an overall summary result. Fixed weights are not applied to each of the four dimensions to derive the overall rating, and the relative significance of each measure will depend on the project context and importance of various project objectives.

E. Chapter III: Issues, Lessons and Follow-Up Actions

51. Chapter III starts with a subsection that deals with each of the main identified positive or negative issues arising from the evaluation and the related lessons for ADB’s future policies and operations. Brief references to relevant ADB policies and other reports on comparable operations may be included in the text or referred to in footnotes to add perspective. Presentation of the main issues should be short and succinct, and earlier chapters and paragraphs may be cited, rather than details repeated. The subsequent subsection identifies forward-looking lessons that are linked to each issue and presented in a general way.

52. One or more subsections may follow, summarizing project-specific matters that reflect the evaluation findings and conclusions and clearly identify any further actions that need to be taken by ADB. The recommendations should take into account which actions are compatible with ADB’s lender, guarantor, investor, and partner roles under the investment agreements for NSO. Similarly, disclosure constraints must be considered for commercial confidentiality reasons. The draft recommendations should be prepared following timely confidential consultation with appropriate operational staff in PSOD, RDs and relevant support functions.

STANDARD TABLE OF CONTENTS FOR NONSOVEREIGN OPERATIONS PERFORMANCE EVALUATION REPORTS

CONTENTS	Length, approx no. of pages
BASIC DATA	
MAP	
EXECUTIVE SUMMARY	(1–2)
I. THE PROJECT	(1–2)
A. Project Background	
B. Key Project Features	
C. Progress Highlights	
II. EVALUATION	(9–12)
A. Project Rationale and Objectives	
B. Development Impact	
i. Private Sector Development	
ii. Business Success	
iii. Economic Sustainability	
iv. Environment, Social, Health, and Safety Performance	
C. ADB Investment Profitability	
D. ADB Work Quality	
E. ADB Additionality	
F. Overall Evaluation	
III. ISSUES, LESSONS AND RECOMMENDED FOLLOW-UP ACTIONS	(1–2)
A. Issues and Lessons	
B. Recommended Follow-up Actions	
Appendixes (examples) ¹	
1. Project-related Data (project costs and financial plan, forecast versus actual)	
2. Private Sector Development Indicators and Ratings	
3. Industry and Operational Review	
4. Financial Statements	
5. Re-evaluation of the Financial Internal Rate of Return (FIRR) and Weighted Average Cost of Capital (WACC)	
6. Re-evaluation of the Economic Internal Rate of Return (EIRR)	
7. Environmental Impact	
8. Social Impact	

¹ These appendixes are not mandatory, and in the case of NSOs with financial intermediaries, the level of data required will be much less than for infrastructure projects.

SAMPLE FORMAT OF THE PPER COVER AND PRELIMINARY PAGES

A. Sample of Front Cover of Project Performance Evaluation Report



Project Performance Evaluation Report

CONFIDENTIAL

Loan No: { }
Project No.: { }
Reference Number: { }
{Month Year}

{Short Country Name}: {Name of Project}

This PPER contains information that is subject to disclosure restrictions agreed between ADB and the relevant sponsor or recipient of funds from ADB. Recipients should therefore not disclose its content to third parties, except in connection with the performance of their official duties. ADB shall make publicly available an abbreviated version of this PPER which will exclude confidential information.

Operations Evaluation Department

Asian Development Bank

B. Sample of Inside Front Cover**CURRENCY EQUIVALENTS**

Currency Unit – Sri Lanka rupee/s (SLRe/SLRs)			
	At Appraisal (September 1987)	At Project Completion (December 1996)	At Operations Evaluation (November 1999)
SLRe1.00 =	\$0.0332	\$0.0182	\$0.0139
\$1.00 =	SLRs30.17	SLRs54.84	SLRs71.95

ABBREVIATIONS

ADB	–	Asian Development Bank
EIRR	–	economic internal rate of return
FIRR	–	financial internal rate of return
IIC	–	International Infrastructure Corporation
IAG	–	Infrastructure Agency of the Government
PPP	–	public–private partnership
OEM	–	Operations Evaluation Mission
PCR	–	project completion report (for public sector operations)
XARR	–	extended annual review report (for private sector investment operations)

GLOSSARY**WEIGHTS AND MEASURES****NOTES**

- (i) The fiscal year (FY) of the Government ends on _____.
- (ii) In this report, "\$" refers to US dollars.

Key Words

Operations Evaluation Department, PE-
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Standard conflict of interest statement to be inserted here, if required.

C. Sample of Basic Project Data^a

BASIC DATA			
Project Title (Investment No(s).- Country)			
Client etc.			
Investee			
Intermediary etc			
Key Project Data (\$ million)	As per ADB Loan Documents	Actual	
Total Project Cost			
ADB Investment:			
Loan:			
Committed			
Disbursed			
Outstanding			
Equity:			
Committed			
Disbursed/			
Returned			
Guarantee:			
Amount of Debt Cofinancing			
Amount of Equity Cofinancing			
Debt: Equity Ratio at Completion			
Supplementary ADB Investment			
Supplementary Cofinancing			
Key Dates	Expected	Actual	
Screening			
Appraisal			
Preliminary Investment Negotiations			
Board Approval			
Final Negotiations and Investment Agreements			
Investment Project Completion			
Extended Annual Review Report (XARR)			
Former Project Completion Report (PCR)			
Latest Annual Monitoring Report			
Latest Portfolio Risk Monitoring Report			
Latest Private Sector Investment Management (PSIM) Note			
Financial and Economic Internal Rates of Return (%)	Appraisal	XARR (or former PCR)	PPER
Financial Internal Rate of Return (Project FIRR)			
Financial Rate of Return on Equity			
Economic Internal Rate of Return (EIRR)			

Project Administration and Monitoring	Dates	Notes
Contract Effectiveness		
Disbursements		
Implementation Monitoring Missions		
Operation Monitoring Missions		
XARR Mission		
PPER Mission		
Others {including exit, final repayment, work-out transfer}		

^a Delete headings that are not applicable.

EVALUATION RATING STANDARDS FOR NONSOVEREIGN OPERATIONS

FOR USE IN PROJECT PERFORMANCE EVALUATION REPORTS (PPERs) AND IN EXTENDED ANNUAL REVIEW REPORTS (XARRs)

A. Overview

1. Nonsovereign operations (NSO)¹ evaluation standards are applied to (i) development impact, (ii) ADB's investment profitability, (iii) ADB's work quality, and (iv) ADB's additionality. The results of this analysis are aggregated to derive an overall rating for the project. The standards used to evaluate each of these criteria are discussed in the following sections.

B. Development Impact

2. Development impact encompasses the effects of a project on a country's economic and social environment. Development impact is evaluated on a "with versus without project" comparison, considering (i) what happened with the project, and (ii) what would have happened without it. To the extent possible, this comparison is intended to distinguish the contribution of the project to development.

1. Development Impact Rating

a. Concept

3. The rating is a synthesis of the overall impact of the project in the developing member country (DMC) economy and addresses how well the project contributed to fulfilling ADB's development objectives. The development impact rating is based on an assessment within the investment environment context of the impact of the project outcomes.

b. Indicators

4. Development impact is rated by using:

- (i) private sector development (PSD),
- (ii) business success,
- (iii) contribution to economic development (economic sustainability), and
- (iv) environment, social, health, and safety (ESHS) performance.

5. Each indicator measures an aspect of the development impact of a project. The evaluation takes into account the sustainability of results, and risk to realization of outcomes, and the impact beyond the project.

c. Evaluation Standards

6. Several indicators and ratings are not quantitative and require informed qualitative judgment. Priorities will differ depending on the nature of the project and its objectives. For these reasons, the development impact rating is not an average as there are no standard weightings applied to the sub-indicator ratings.

¹ In the context of XARR evaluation standards, NSO and private sector operations (PSO) can be regarded as equivalent to each other.

7. Considering the ratings of the four sub-indicators in paras. 8 to 29 below, the NSO's overall development impact are rated on a four-point scale.

- (i) **Excellent.** A project with extraordinarily positive impact in the key dimensions relevant to the project and the investment environment, with virtually no flaws or negative impact. This rating can indicate a landmark project that made a strong contribution to private sector development, including via through a demonstration effect, standard setting, and institutional improvements; business success factors; high economic sustainability; and outstanding environmental performance and socioeconomic impact.
- (ii) **Satisfactory.** A project with generally satisfactory ratings on its key sub-indicators without material shortcomings. Alternatively, a project with some very strong positively evaluated aspects in key dimensions relevant to the operation in its investment environment that more than compensate for minor negative impacts in some respects.
- (iii) **Partly Satisfactory.** A project with either several minor shortcomings that are not compensated for by a very strong positive singular impact, or a project with a serious shortcoming in one key area, which outweighs other generally positive aspects.
- (iv) **Unsatisfactory.** A project with no evaluated positive impact, or one with negative impacts on several sub-indicators, which clearly outweigh the remaining positive aspects.

2. Development Indicators

a. Private Sector Development

i. Concept

8. The PSD indicator addresses how well the investment meets ADB's development objectives beyond the project or investee entity, through its impact in the DMC investment environment. The indicator reflects various "externalities", such as the wider dissemination of new industry or business expertise, competition pressure and improved markets, economic links, demonstration and institutional influences, and setting positive or negative standards in the wider economy and the project sector.

ii. Indicators

9. Indicators are identified by referring to the objectives and targets presented in approval documents such as the report and recommendation of the President, and to PSD indicator and rating checklists used to evaluate NSOs in ADB.² There is also a need to consider priorities that are currently relevant to ADB's policies and development objectives. The checklist assessment considers impacts and potential impacts, assesses the risks to their realization, and will be used to assess performance against the sub-indicators and derive the overall PSD rating. The justifications should be clear and, where possible, based on strong indicators and reasoning. The analysis needs to take into account the likely "without project" development scenario to

² PSD checklists attached to the XARR project administration instructions include tailored versions for infrastructure, private equity funds, and financial intermediaries such as banks for small and medium-sized enterprise finance. Examples are presented in appendixes 5–7.

attribute external impact to private sector investments. Few operations have any inherent randomization or control group elements that allow robust comparative post-evaluation.

iii. Evaluation Standards

10. Project performance should be rated using the relevant PSD checklist in accordance with the following qualitative standards.

- (i) **Excellent.** Considering its size and use of resources, the project has a major positive and sustainable impact on the targeted and currently relevant PSD dimensions in its investment environment, and has virtually no negative PSD impact.
- (ii) **Satisfactory.** The project has material positive and sustainable PSD impact on the targeted and currently relevant PSD dimensions that clearly compensates for any negative impact.
- (iii) **Partly satisfactory.** The positive impact of the project is insignificant in the targeted and currently relevant PSD dimensions, and, considering the project size and use of resources, there is some negative impact, and insufficient positive sustainable impacts for a satisfactory rating.
- (iv) **Unsatisfactory.** The project has no positive and sustainable impact in the targeted and currently relevant PSD dimensions, or has substantial negative impact that is not compensated for by any material positive impact.

b. Business Success

i. Concept

11. The project's contribution to business success is measured primarily by the real after tax financial internal rate of return (FIRR)³ that is compared to the real weighted average cost of capital (WACC) for the project entity to determine whether the project is covering its opportunity cost on capital employed. Where the NSO facility is in the form of a corporate loan or equity investment that is not specific to a particular investment, or where the incremental cash flows cannot be identified, the real financial return on invested capital (ROIC) may be used as a proxy for FIRR.⁴ For investments undertaken via financial intermediaries such as private equity funds that have clearly identifiable financial subproject performance measures, a broad judgment can be provided on the expected range within which the combined FIRR would be likely to fall, which can then be compared to the WACC.

12. In all cases, the ratings can consider, on a secondary basis and where appropriate, the (i) project's contribution to other business goals stated during project approval, and (ii) overall prospects for sustainability and growth of the project company or entity.

³ It is important to note the above standards for rating NSOs' business success differ from the standards for rating ADB's own investment profitability (Section C, paras. 30–39). According to the "harmonization" GPS of ECG for private sector operations, member multilateral development banks (MDBs) should apply common benchmarks for measuring project profitability, while each MDB sets separate return requirements for its own investments.

⁴ The FIRR and ROIC calculations discount all cash flows and terminal values. As such, ROIC measures the internal financial strength of the enterprise regardless of the forms or conditions of its financing. Average reported and projected yearly returns on equity are an inferior measure and disregard the time factor and compounding element.

ii. Indicators and Evaluation Standards

13. **Alternative 1: Project FIRR vs. WACC.** The following FIRR and WACC benchmarks are used to rate specific investments for standalone projects where the incremental costs and returns can be identified and quantified in terms of basis points (bps) over WACC:⁵

- | | | | |
|-------|-----------------------------|------|---|
| (i) | Excellent: | FIRR | \geq WACC + 700 bps |
| (ii) | Satisfactory: | FIRR | $>$ WACC and $<$ WACC + 700 bps |
| (iii) | Partly Satisfactory: | FIRR | $>$ WACC (equity premium=0) \leq WACC |
| (iv) | Unsatisfactory: | FIRR | \leq WACC (equity premium=0) |

14. These rating standards can also be applied to specific ADB investments via financial intermediaries that are linked to identifiable capital expenditure and subprojects that have sufficiently detailed performance records.

15. **Alternative 2: Time-adjusted ROIC vs. WACC, Applying the Scale in Alternative 1.** ROIC is used on a before and after project basis for rating projects with NSO corporate loans or equity investments provided by ADB when:

- (i) there are clearly no identifiable and measurable incremental project costs and returns, and
- (ii) ROIC can be calculated as time-adjusted real compound return on all invested capital in the enterprise based on its initial (before project) and terminal (after project) values as available and projected.

16. The rating standards for ROIC vs. WACC in these circumstances are the same as the indicators presented in Alternative 1.

17. **Alternative 3. Ad Hoc Estimates of FIRR for Sub-Portfolios in Financial Intermediaries other than Private Equity Funds vs. WACC.** This alternative uses information from the intermediary's cost-accounting or return analyses for the relevant product groups and/or profit centers to make rough after-tax FIRR estimates. The resulting proxy FIRR is rated against the adjusted WACC benchmarks presented in Alternative 1, adding an extra 250 bps to the 700 bps requirement over WACC needed to achieve an excellent rating.

18. **Alternative 4. For Private Equity Funds – Net Real FIRR to Investors vs. a Suitable Market Benchmark for the Corresponding Period.** The net real FIRR accruing to the fund investors can be used as a proxy for evaluating subproject business success of private equity funds. This result is then set against a suitable market benchmark for private equity in the country, region, or global emerging markets. Changes in the benchmark over the corresponding period can be translated into a real compound annual growth rate (CAGR). In the absence of suitable benchmarks, the real CAGR in the *Standard & Poor 500* index over the corresponding period can be used on a trial basis.

19. The rating hurdles for net real FIRR to private equity fund investors compared to these two potential benchmarks are as follows.

⁵ The hurdle ratings are taken from the following report on GPS dated April 2006: Multilateral Development Banks (MDB) Evaluation Cooperation Group (ECG) Working Group on Private Sector Evaluation, 2006, *MDB-ECG Good-Practice Standards for Evaluation of Private Sector Investment Operations, Third Edition*

	FIRR vs. CAGR of suitable private equity benchmark	FIRR vs. CAGR S&P 500
(i) Excellent:	+ 500 bps	+2500 bps
(ii) Satisfactory:	> benchmark –50 bps	+1500 bps
(iii) Partly Satisfactory:	> benchmark –200 bps	+ 350 bps
(iv) Unsatisfactory:	< benchmark –200 bps	< +350 bps

c. Contribution to Economic Development

i. Concept

20. Economic development needs to be measured as PSD ratings are typically qualitative and business success ratings such as FIRR do not take into account externalities and competition effects. A project's contribution to economic development is measured primarily by the economic internal rate of return (EIRR). The economic return on invested capital (EROIC) is used as a proxy for corporate loan and equity funding that is not targeted at specific capital investment projects, and expansion projects where the incremental costs and benefits clearly cannot be separately quantified.

ii. Indicators

21. **Alternative 1: EIRR.** EIRR is used for capital expenditure projects where the incremental costs and benefits can be separately quantified. The EIRR calculations tend to focus on issues such as environmental externalities and market distortions and do not seek to quantify all of the PSD externalities identified in the checklists in Appendixes 5–7. Financial flows may be adjusted for distortions such as subsidies and taxes. The adjustments may also change revenues to border prices for internationally traded goods and services, or apply “willingness-to-pay” concepts in regulated sectors such as power. Other adjustments may be made for market distortions, certain economically scarce or abundant factors, or to quantify positive or negative externalities.⁶

22. **Alternative 2: EROIC.** EROIC can be used when it is not possible to identify project costs and benefits clearly. This figure can be calculated by taking the financial ROIC and adjusting for factors such as taxes and subsidies used to derive EIRR.

23. **Alternative 3: Proxies for Investments via Financial Intermediaries and Private Equity Funds.** The gross FIRR derived from the portfolio investments of private equity funds that has been adjusted to derive an EIRR may be used as a proxy for the weighted average EIRR of the investments at investee levels. Similarly, adjusted profit center returns may be used as a proxy where subproject performance cannot be practically and meaningfully represented by an adjusted weighted FIRR for these facilities.

⁶ For further details on calculating EIRR, please refer to Appendix 4 and the ADB website <http://www.adb.org/economics/analysis.asp>.

iii. Evaluation Standards

24. The rating standard for EIRR or EROIC is based on the following hurdle rates:⁷

- | | | |
|-------|-----------------------------|-------------------|
| (i) | Excellent: | > = 20% |
| (ii) | Satisfactory: | > = 10% and < 20% |
| (iii) | Partly Satisfactory: | > = 5% and < 10% |
| (iv) | Unsatisfactory: | < = 5% |

d. Environment, Social, Health, and Safety (ESHS) Performance

i. Concept

25. The ESHS evaluation assesses the project's impact on the physical environment, social development, and workers' health and safety. The review also addresses project performance relative to ADB policies and strategies, the operation's ESHS objectives, adherence to the ESHS standards applicable at approval, and key current standards that are relevant to the project. The aims, character, and size of the PSO influence the scope of the evaluation. These factors will determine the extent to which the assessment addresses poverty reduction through stakeholder analysis and evaluates issues such as ethnicity, gender, child protection, and public health.

ii. Indicators

26. The ESHS evaluation applies indicators identified at approval, or those that have subsequently become relevant, such as the need for compliance with statutory legislation and national regulatory standards, and standards set by ADB.

27. The indicators are drawn from project documents and include: (i) baseline and monitoring indicators derived from environmental impact studies and action plans; (ii) similar project documents prepared on issues such as energy conservation; and (iii) studies and plans on health and safety, resettlement, and other relevant socioeconomic issues.

28. When applying the ESHS indicators, the evaluation needs to clearly define: (i) compliance benchmarks (derived from statutory and regulatory requirements and ADB-standards in investment agreements); (ii) non-mandatory performance indicators subject to defined targets and standards; and (iii) other positive and negative changes that can be attributed to the PSO investment.

iii. Evaluation Standards

29. The project's ESHS performance should be rated as follows:

- (i) **Excellent.** The project materially complies with or exceeds the standards in host country laws and regulations, as well as the benchmarks set by ADB at approval and that currently apply to similar projects in key relevant areas. Material improvements in overall ESHS performance in expansion projects can clearly be attributed to the project and ADB participation. The project demonstrates new relevant technologies and risk control and standards, including those applicable to health and safety, worker and community relations, and social areas. The

⁷ Hurdle rates are taken from the ECG GPS dated April 2006 (footnote 5).

project standards are visible and replicable in the sector and industry and contribute to higher overall ESHS standards. The direct and wider positive impacts are sustainable and more than compensate for any negative impact caused by the project. Financial intermediaries demonstrate standards that meet or exceed all the key ADB requirements in the organization, policies, and handling of subprojects of the intermediary. The projects are used in the host country and by ADB as landmark examples of excellent ESHS standards and performance.

- (ii) **Satisfactory.** The project materially complies with most key standards in host country laws and regulations and those set by ADB at approval. Improved overall ESHS performance in expansion projects can reasonably be attributed to the project and ADB participation. The project demonstrates some new relevant technologies, risk control or good ESHS standards, or has the potential to do so. The direct and wider positive ESHS impacts are largely sustainable and on the whole compensate for identified negative impacts or damage that have been corrected by introducing mitigation measures. Financial intermediaries essentially meet key ADB requirements in their organization, policies, and handling of subprojects, as demonstrated by project performance in ESHS areas.
- (iii) **Partly Satisfactory.** The project materially complies with most of the key standards and milestones in the host country laws and regulations and as set by ADB at approval, but does not comply with all. Improvements to overall ESHS performance in expansion projects are below expectations or likely to be so. The project has fair to modest potential for wider demonstration of new relevant technologies and for complying with overall ESHS standards, or to some extent may have actual (or a material risk of) negative demonstration effects. The positive impacts are not great enough to meet the key expectations, or they are met in most respects while substandard performance in others still cannot justify a satisfactory overall ESHS rating. Financial intermediaries meet key ADB requirements in the organization, policies, and handling of subprojects by the intermediary only in part, as demonstrated by the project performance in ESHS areas.
- (iv) **Unsatisfactory.** The project does not materially comply with either the statutory laws and regulations or ADB's requirements at approval, and mitigation prospects are uncertain or unlikely to be effective. The project caused substantial damage to the environment that may be permanent, and/or exposed its workers and the community to excessive health risks or worsened socioeconomic conditions. Mitigation measures required by regulatory enforcement are unsatisfactory or there is potential for litigation for damages due to substantial failings, when measured against environmental action and resettlement plans. Financial intermediaries do not meet key ADB requirements in their policies, organization structure, and procedures for the handling of subprojects, as illustrated by poor ESHS risk mitigation systems, performance standards, and compliance in subprojects.
- (v) **No opinion possible.** Where, after best efforts, the relevant information to establish material compliance (or lack thereof) cannot be obtained, a rating of "no opinion possible" may be assigned. This rating should be used a last resort, after reasonable effort has been made to obtain the necessary information. A sponsor's failure to report on material negative ESHS events, or repeated refusal to cooperate on reporting on these issues, should result in a partly satisfactory or unsatisfactory rating.

C. ADB'S Investment Profitability

1. Concept

30. Ideally ADB's investment profitability should be evaluated relative to minimum targeted risk adjusted returns on capital employed for guarantees, loans and equity investments, but these parameters have not yet been defined by Management. For this reason, interim proxy measures will be used to evaluate the adequacy of the returns accruing to ADB's private sector investments. Given the absence of any set ADB minimum return on capital employed, evaluation reports should include a note that the standards for guarantees, loans, and equity are provisional. The analysis of ADB returns should take into account the following: (i) relative risk of a guarantee operation as compared to that for direct loans and equity investments, and (ii) the benefit of syndication arrangements that would allow for the transfer of some or all risks associated with nonsovereign guarantee and loan operations to ADB's financing partners.

2. Indicators

31. For guarantees and loans, the margin or gross profit contribution is calculated as returns net of financing cost and loss provisions, but before deducting administrative costs. Using net profit contribution is possible if ADB adopts cost-accounting systems that reflect administrative costs for investments based on time reports.

32. For ADB's direct equity investments and indirect private equity funds investments where ADB has proprietary holdings, profitability is assessed by referring to the real net equity FIRR.⁸

3. Evaluation Standards

a. ADB's Guarantee or Loan Profitability

33. The scheduled fee or margin earnings over the lifetime of the guarantee or loan, adjusted for any specific provisions, yield a gross annualized compound income contribution to ADB. This figure can be compared to that for other ADB portfolio guarantees or loans with similar project and country risk profiles at approval.

34. Guarantee or loan fees or margins can be evaluated as multiples of actual or notional comparator margins at approval:

	Minimum Multiple
(i) Excellent	1.5
(ii) Satisfactory	0.9
(iii) Partly satisfactory	0.7
(iv) Unsatisfactory	Below satisfactory

35. In applying the above interim standards to loans, the evaluation needs to recognize that cases with early prepayment for small non-revolving loans below \$10 million may involve relatively high net transaction and administration costs for ADB. In these circumstances, it may be justified to apply a lower rating than the result arrived at through the use of the gross earnings contribution indicators and standards set out above.

⁸ This rate of return can potentially be compared to the 5-year swap rate within a country where available to obtain an indication of the profit margin, which can then be compared to other comparable investments. This concept is not yet part of the GPS for MDBs for PSO projects.

b. ADB's Equity Profitability for Direct Investments and via Partnerships in Equity Funds

36. Three alternatives may be considered when evaluating the profitability of ADB's direct and indirect equity investments:

37. **Alternative 1: Consistent at-approval minimum return expectations exist, or are implicit in ADB's recent years' approvals of other investments for the relevant type of private equity funds.** Realized net capital gains values or net fair value as per international financial reporting standards translate into a real net equity FIRR that exceeds the minimum return requirements defined at approval by the multiples in Table A3.1.

Table A3.1: Annualized Net Equity Earnings as Minimum Multiples of Minimum Approval Net Equity FIRR Expectations in Private Equity Funds

Item	Excellent	Satisfactory	Partly Satisfactory	Unsatisfactory
From realized exits, or fair value marked to partial sale or firm offers	1.3	0.9	0.7	<0.7
Fair value valuations for investments in funds where there has not been an exit and no market benchmark	1.7	1.2	0.9	<0.9

< = less than, FIRR = financial internal rate of return.

38. **Alternative 2: Hurdles are not set at approval or otherwise by ADB and there are no market-based comparators.** Realized and unrealized gains and losses based on exit values or net fair value translate into compounded annual earnings that equal the following minimum multiples of gross earnings. These earnings can be derived from an actual or notional senior secured ADB term loan associated with a similarly risky project and borrower in a similarly risky environment at similar times (Table A3.2).

Table A3.2: Return on ADB Equity Investments; Minimum Multiples of Proxy Gross Earnings from Actual or Notional Senior ADB Loans to Similar Projects

Item	Excellent	Satisfactory	Partly Satisfactory	Unsatisfactory
From realized exits, or fair value marked to partial sales or firm offers	2.0	1.5	0.9	<0.9
Fair value as per IFRS.	2.4	1.8	1.2	<1.2

< = less than, IFRS = international financial reporting standards.

39. **Alternative 3: Hurdles are not set at approval or otherwise by ADB and market-based comparators are available.** In some cases, it may be possible to identify risk-adjusted returns on comparable equity investments of publicly listed companies within a country.

Table A3.3: ADB Equity Return as a Multiple of Risk-Adjusted Returns for the Industry in Relevant Equity Markets

Excellent	Satisfactory	Partly Satisfactory	Unsatisfactory
> 1.5	0.9–1.1	0.7–0.9	<0.7

> = greater than, < less than.

D. ADB'S Work Quality

1. Concept

40. Evaluation of ADB's work quality addresses: (i) screening, appraisal and structuring; (ii) monitoring and supervision; and (iii) role and contribution to the project. The evaluation needs to consider whether ADB applied good-practice standards in these areas, such as those given in ADB policies, procedures, and guidance notes. The analysis also needs to consider why changes occurred to the project and/or financial structure in areas such as cancellations, prepayments and modifications of loan terms.

41. A satisfactory development outcome for the project may have been achieved even though ADB performed poorly in appraising and supervising the project, had a limited role, and made virtually no contribution to project outcome. Similarly, an unsatisfactory development and investment outcome may have been caused by external factors that could not reasonably have been foreseen, or by risks that could not have been mitigated, and which occurred despite an excellent standard of work by ADB.

42. The evaluation of ADB's work quality needs to consider both scenarios, identify key issues, and draw relevant lessons that can be used to improve future policies and operations.

1. Indicators

43. Screening, appraisal and structuring are concerned with identifying the quality of the project in terms of achieving development and financial and economic outcomes while complying with social and environmental safeguards. Monitoring and supervision focuses on how well the original concept was executed in terms of managing risks and achieving project objectives. Role and contribution refers to ADB's compliance with basic operating principles, and the level of support provided to help realize the project's objectives and achieved standards, and ensure client satisfaction.⁹

2. Evaluation Standards

44. Each of the sub-indicators are evaluated and then aggregated to derive the overall rating for ADB work quality:

⁹ The level of additionality of ADB's input is not included in this stage of the evaluation and is considered as a separate PSO performance criterion in Section E, paras. 45–46.

a. Screening, Appraisal, and Structuring

- (ii) **Excellent.** ADB's screening, appraisal, and structuring performance met high standards of multilateral development banks and could serve as an example of best practice.
- (iii) **Satisfactory.** The front-end work quality materially met ADB's good practice standards.
- (iv) **Partly Satisfactory.** ADB's screening, appraisal, and structuring performance had a material shortfall in at least one key area.
- (v) **Unsatisfactory.** There were material shortfalls in several areas or a serious mistake or omission demonstrating substandard front-end work bordering on negligence in at least one key area.

b. Monitoring and Supervision

- (i) **Excellent.** ADB kept itself promptly and fully informed about the project in all material areas, and used this knowledge proactively to improve the project's development outcome and/or ADB's investment outcome. Portfolio reporting and monitoring of progress, and covenant compliance and risk management practices were excellent.
- (ii) **Satisfactory.** ADB has kept itself sufficiently informed to react in a timely manner to any material change in the performance of the project or the company and took timely action when needed. Portfolio monitoring and reporting of progress, and covenant compliance and risk management practices were satisfactory.
- (iii) **Partly Satisfactory.** ADB's supervision practices were partly insufficient to monitor the performance of the project and company and/or ADB did not always take timely and appropriate action. Portfolio monitoring and reporting of progress, and covenant compliance and risk management were of an uneven standard.
- (iv) **Unsatisfactory.** ADB's supervision was inadequate and it was unaware of material developments and/or did not use information to intervene on a timely and appropriate basis. Portfolio monitoring and reporting on progress, and covenant compliance and risk management were substandard.

c. ADB Role and Contribution

- (i) **Excellent.** ADB's role was crucial for the project.
- (ii) **Satisfactory.** ADB's role and contribution were in line with its operating strategies, policies, and standards.
- (iii) **Partly Satisfactory.** ADB's role or contribution fell short in a material area.
- (iv) **Unsatisfactory.** ADB's role and contribution were substandard as demonstrated by material shortfalls in the light of ADB strategies, policies, and standards.

d. Overall ADB Work Quality

- (i) **Excellent.** ADB's performance met high standards at all stages, and there are strong indications of its positive role and contribution. Performance was excellent against all three sub-indicators.
- (ii) **Satisfactory.** ADB's performance was materially up to a high professional standard for multilateral development banks engaged in private sector

investment operations. Performance was satisfactory or better against all three sub-indicators.

- (iii) **Partly Satisfactory.** There was a material shortfall in at least one area and performance was unsatisfactory against one or more of the three sub-indicators.
- (iv) **Unsatisfactory.** There were shortfalls in several areas or a serious shortfall in one area, which led (or could have led, under less favorable circumstances) to a less than satisfactory development impact or investment return.

E. ADB's Additionality

1. Concept

45. Evaluation of ADB's additionality is based on whether (i) ADB finance was a necessary condition for the timely realization of the project, either directly or indirectly by providing sufficient comfort to attract private financiers; and (ii) ADB's contribution to the project design and function improved the development impact.

2. Indicators

46. The assessment of ADB additionality is primarily judgmental as a lack of reliable counterfactual information in many cases makes it difficult to determine whether ADB's finance was necessary for the timely realization of the project. The same applies to the assessment of whether ADB contributed to improved performance. For example, ADB's structuring, conditioning, or monitoring performance may have helped improve ESHS or governance standards in some respects, or it may have added a burden to the project that undermined project performance with no corresponding value added.

3. Evaluation Standards

- (i) **Excellent.** There are strong indications and/or logical justification that leave no reasonable doubt that, without direct or indirect ADB participation: (a) the project would not have gone ahead on a timely basis with market financing on appropriate terms; and (b) if project delays had materialized, the project would have been materially inferior in several key areas, such as the contribution and reward balances among sponsors, financiers, and other stakeholders, improvements in business, economic, and socioeconomic performance, or achieved standards of ESHS and governance.
- (ii) **Satisfactory.** If ADB had not participated directly or indirectly, the project could possibly still have gone ahead with some delay, using finance on largely appropriate terms from the market and/or other sources of development finance. Nevertheless, there are strong indications and/or logical justification that leave little doubt that, without ADB, the project would have been implemented in a modified form that was inferior in some key areas, such as contractual and financial structure, business and development performance, or standards of ESHS and governance.
- (iii) **Partly Satisfactory.** It is likely the project would have been implemented without material delay even without ADB's direct or indirect participation. Nevertheless, there are strong indications and/or logical justification that leave little doubt that, without ADB, the project would have been implemented in a modified form that was inferior in some key areas, such as contractual and financial structure, business and development performance, or standards of ESHS and governance.

- (iv) **Unsatisfactory.** The project would clearly have gone ahead with essential market finance without ADB's participation, and without material delay. There are no strong indications or logical justification that supports the view that ADB's participation in the project materially improved performance in key areas, or that ADB's participation materially helped strengthen its developmental role and networks in the sector for other projects where it would be clearly more additional.

F. Overall Rating of the Project

1. Concept

47. This section presents the overall rating of the NSO, as justified by the underlying ratings of development impact, ADB investment profitability, ADB work quality, and ADB additionality.

48. No fixed weights are used derive the overall rating, as it depends on the particular project and investment environment context, and importance of project objectives in the light of ADB strategies and priorities. A ratings matrix that provides guidance on how the four PSO evaluation dimensions are aggregated to derive an overall result is presented below.

2. Overall Ratings Matrix

49. The following ratings matrix is indicative, and does not encompass all conceivable combinations of outcomes.

Table A3.4: Indicative Ratings Matrix for Overall Ratings in Evaluation of Nonsovereign Operations

Ratings	Development Impact (DI)	ADB Investment Profitability (IP)	ADB Additionality (ADD)	ADB Work Quality (WQ)	Remarks
Highly Successful, (HS)	Excellent	Satisfactory	Satisfactory	Satisfactory	Requires excellent DI and minimum satisfactory for IP, ADD and WQ
Successful (SU)	Satisfactory	Partly Satisfactory	Partly Satisfactory	—	Requires minimum satisfactory for DI and minimum partly satisfactory for both IP and ADD
Partly Successful (PS)	Partly Satisfactory	Partly Satisfactory	Partly Satisfactory	—	Requires minimum partly satisfactory for each of DI, IP and ADD
Unsuccessful (US)	Unsatisfactory		Unsatisfactory	—	Unsatisfactory DI and/or ADD

50. The indicative ratings matrix presented above is intended as a rough guide. It is not complete, and does not include all conceivable combinations. Ratings presented in bold depict singular minimum ratings that would normally need to be met to derive the respective overall rating. Unsatisfactory development impact and/or additionality will lead to an overall rating of unsatisfactory. Exceptions must be highlighted in evaluation reports and strongly justified.

FINANCIAL AND ECONOMIC RATE OF RETURN CALCULATIONS¹

1. **Scope.** This appendix discusses the calculation of financial and economic rates of return. The review of financial return calculations is limited to general comments; the main focus is on the calculation of the economic internal rate of return (EIRR) on evaluated nonsovereign projects. The appendix also refers to the financial and economic rates of return on invested capital (ROIC and EROIC)² that are used when a project-specific return cannot be calculated. Specific rating standards are presented in Appendix 3.
2. **Concepts.** The financial internal rate of return (FIRR) and the return on invested capital (ROIC) reflect the financial returns and costs of a project or enterprise and are based on actual performance and projections. FIRR and ROIC provide means of determining whether the growth rate of a project's cash flows exceeds its weighted average cost of capital.³ The EIRR or EROIC calculation reflects the actual quantifiable economic benefits and costs realized at the time of evaluation and as projected, based on informed assessment of the prospects and risks.
3. **Methodology.** These notes do not include detailed guidance for financial and economic⁴ return calculations for private sector operations. The ADB guidelines for evaluation of public sector operations are relevant in part for NSOs in regulated infrastructure and utility projects. A project-specific FIRR and EIRR can be calculated for operations that allow identification of incremental costs and benefits or returns from an investment project. In other cases, EROIC or ROIC for financial return calculations may be used as a proxy.
4. **Approach Paper Discussion.** The approach paper or plan for the evaluation should address the approach and methodology for calculating economic and financial returns. This discussion should take into account the approach and calculations used at the time of project approval and in any expanded annual monitoring report (XARR) prepared before the evaluation. Justifications should be given for retaining or changing the approach and methods.
5. **Attribution of Economic Costs and Benefits to the Project.** A critical element in estimating the economic return of a project or enterprise is an assessment of the "without project" scenario. Experience suggests that "without project" outputs are frequently underestimated, i.e., the attribution of incremental benefits to the project exceeds what can be justified in the light of what would reasonably have happened without the project. This risk may occur when quantifying significant benefits beyond the project or enterprise (positive externalities), or when adverse "beyond project" impacts (negative externality such as environmental damage) might be underestimated.

¹ These notes include in part some adaptations to relevant sections in ADB. 2006. *Guidelines for Preparing Performance Evaluation Reports for Public Sector Operations*. Manila (January).

² ROIC is the financial return on a discounted basis over the projected period on all capital employed by the enterprise, regardless of the funding source and cost. The discounting therefore excludes depreciation, debt service, and dividends. EROIC is the economic version of ROIC, and it can be calculated by making economic adjustments to the financial ROIC cash flows. The adjustments may include subsidies and taxes, and may also change revenues to border prices for internationally traded goods and services, or apply willingness to pay concepts in regulated sectors such as power. Other adjustments may be made for market distortions, certain economically scarce or abundant factors, or to quantify positive or negative externalities. For general guidelines on economic analysis refer to ADB. 1997. *Guidelines for the Economic Analysis of Projects*. Manila.

³ Refer to the rating standards in Appendix 3 and standard textbooks on financial return calculations such as: R. Brealy and S. Myers, 2002, *Principles of Corporate Finance*, 7th Edition, Irwin, McGraw-Hill

⁴ See <http://www.adb.org/economics/analysis.asp>, which presents a set of comprehensive ADB guidelines for economic analysis, including sections adapted for specific sectors. For general guidelines refer to ADB. 1997. *Guidelines for the Economic Analysis of Projects*. Manila.

6. **Sensitivity Tests.** Sensitivity tests that adjust key assumptions and make material modifications to financial cash flows and economic return analyses should be included in the evaluation. These assumptions may include effects of regulatory influence compared to the base-case assumptions at approval. Similarly, the assumed pace of market liberalization or improved financial sector regulation may have a critical influence on the project outcomes.

7. **Least-cost Analysis.** The least-cost analyses carried out at appraisal⁵ should be re-examined, and if practical and relevant, a new assessment undertaken. These circumstances may arise in regard to large capital-intensive, regulated or off-take based private sector infrastructure projects in power, transport, telecommunications, or municipal utility sectors.

8. **Reasonableness of Conclusions.** In many cases the economic return can be quite high or extremely low. This may arise if the evaluated project and its business performance are extraordinarily good and the market is liberalized and efficiently regulated, or vice versa. Arriving at defensible conclusions on the level of project EIRR or EROIC may be possible in these cases by making simple adjustments to the financial flows. In other cases, more detailed adjustments may be warranted to reflect substantial price distortions or subsidies, or when a project is on the borderline between two rating categories. Alternatively, where data or resource constraints prevent economic benefits and costs to be quantified, these impacts may be reflected in parts of the evaluation that assess private sector development and/or environmental impact.

9. **Commenting on Major Deviations.** The evaluation report should summarize the reasons for differences between the evaluated financial and economic returns, differences between appraisal estimates and the actual results, and differences to returns identified in any prior XARR. Reasons for differences might include: (i) demand variations due to changing macroeconomic conditions, new competition and/or regulation; (ii) changes in the scale, phasing, or scope of the project business concept; (iii) investment cost overruns and/or implementation delays; (iv) changes in managerial capacity; (v) deviations in capacity utilization, productivity, and operating costs; (vi) unforeseen technical and environmental aspects, including mitigation cost; and, more generally, (vii) under- or overestimated risks in these or other key dimensions.

⁵ Cost-effectiveness analysis seeks to select alternative concepts or technologies for economic minimum-cost production.

PRIVATE SECTOR DEVELOPMENT INDICATORS AND RATINGS - INFRASTRUCTURE

Impact of the Project	Ratings				
	Impact to Date	Potential future impact (sustainability) and risk to its realization		Combined rate ^a	Justification/ Annotations
1. Beyond Company Impact	Rating ^b	Rating	Risk ^c		Monitoring indicators can be derived in part from RRP's. Many indicators are judgemental. Their use and ratings should consider the operational context, ADB objectives and strategies, and project proportions.
1.1 Private sector expansion: Contribution by a pioneering or high-profile project that facilitates in its own right, or paves the way, for more private participation in the sector and economy at large.					
1.2 Competition: Contribution of new competition pressure on public and/ or other sector players to raise efficiency and improve access and service levels in the industry.					
1.3 Innovation: Demonstration of efficient new products and services, including areas such as marketing, distribution, tariffs, production and technology, and in ways to cover or contain cost, manage demand etc.					
1.4 Linkages: Relative to investments, the project contributes notable upstream or downstream linkage effects to business clients, consumers, suppliers, key industries etc. in support of growth.					
1.5 Catalytic element: Contribution by pioneering and/or catalytic finance, mobilizing or inducing more local or foreign market financing and/or foreign direct investment in the sector.					
1.6. Affected laws, frameworks, regulation: Contributes to improved laws and sector regulation for PPPs, concessions, joint ventures, and BOT projects; and liberalizing markets as applicable for improved sector efficiency.					
2. Company Impact with Wider Potential					
2.1 Skills contribution – Contribution to new strategic, managerial, and operational skills with actual or potential wider replication in the sector and industry.					
2.2 Demonstration of new standards - As seen in new ways to operate the business and compete, and in investee performance against relevant best industry benchmarks and standards					
2.3 Improved governance - As evident in set standards in corporate governance, stakeholder relations, ESHS fields and/or in good energy conservation standards.					
2.3 Other					
3. Overall PSD Rating - Unsatisfactory, partly satisfactory, satisfactory and excellent. The rating is not an arithmetic mean of the individual indicator ratings, and does not have fixed weights. Actual positive or negative impacts, future impacts, and risks to its realization need to be considered.					

BOT = Build Operate Transfer; ESHS = environmental, social, health and safety; PPP = Public Private Partnership; PSD = Private Sector Development; RRP= Report and Recommendation of the President.

^a The combined rating should weigh future impact and risk to its sustainable realization

^b Unsatisfactory, Partly Satisfactory, Satisfactory and Excellent. The rating is not an arithmetic mean of the individual indicator ratings, and these have no fixed weights. Consider already manifest actual impact (positive or negative) and the potential further impact as well as risk to its realization.

^c Rating Scale: Risk: High, Medium, Modest, and Low.

**PRIVATE SECTOR DEVELOPMENT INDICATORS AND RATINGS:
PRIVATE EQUITY FUNDS**

Indicators	Ratings ^a	Justifications/Annotations
		Monitoring indicators can be partly derived from RRP's. Several indicators are essentially judgmental. Their use and ratings should consider the operational context, and ADB aims, strategies, and project proportions.
1. Wider Sector and Economy Impact Beyond Intermediaries and Investees		
<p>1.1 Private sector expansion and institutional impact:</p> <p>1.1.1 Contribution by the fund to pioneering or materially increasing the private sector share and role in the economy.</p> <p>1.1.2 Institutional development contribution by:</p> <ul style="list-style-type: none"> (i) improving supply of risk capital in the market, (ii) demonstrating the merits with private equity funds to the public, firms, banks and others, (iii) bringing liquidity to local stock exchanges with IPOs, (iv) helping a private equity industry take root and become more efficient along with maturing capital markets, (v) wider private equity expertise via migration of fund manager staff to other funds, etc. 		<p>The institutional rationale for funds can be more relevant in intermediate and advanced investment environments.</p> <p>Conversely, factors such as expertise and demonstration of private entrepreneurship may be more relevant in "frontier" countries.</p>
<p>1.2 Competition: Contributions to new competitive pressures in key investee markets and/or in the financial sector for risk capital and finance.</p>		<p>Bigger funds for middle-of-the-range or larger investee companies can have more potential impact on investee markets than smaller SME funds.</p>
<p>1.3 Innovation: Indications fund helped introduce effective new products, services, and new technologies, as well as replicable new business strategies in investee companies, or in the way the fund operated, thereby supporting reform and transformation of business sectors, industries and/or maturing financial markets (See 2.2 below).</p>		<p>Energy conservation and technology funds may have this particular rationale.</p>
<p>1.4 Linkages: Indications that, relative to size of investments, fund adds notable upstream or downstream link effects to investee and/or financial markets for growth.</p>		<p>Qualitative assessment. For smaller SME and middle-of-the-range funds, context and proportions are important.</p>
<p>1.5 Catalytic element: Pioneering or catalytic finance that mobilized, or will contribute to wider improved debt or risk capital supply from local and foreign investors to investees and to local financial sectors generally.</p>		<p>Investee manager's records, informed assessments based on manager's reports and field observations can help identify these effects.</p>
<p>1.6 Affected laws, frameworks, regulation: Contribution to improved legal and regulatory private business or sector frameworks, or to improved financial sector regulation, such as by observed lobby activity. Fund manager reports on significant dialogue affecting reform.</p>		<p>Manifest lobby activity by fund managers, or investees with the fund managers may provide useful indicators of this form of support.</p>

^a Four grade scale: Unsatisfactory, Partly Satisfactory, Satisfactory and Excellent. The rating is not an arithmetic mean of the individual indicator ratings, and these have no fixed weights. Consider already manifest actual impact (positive or negative) and the potential further impact as well as risk to its realization.

Indicators	Ratings ^a	Justifications/Annotations
<p>1.7 Wider demonstration of new standards. Complies with good standards, and set replicable new standards in, among others, corporate governance, transparency, stakeholder relations, ESHS, and energy conservation. Demonstrated governance standards and improved transparency, including as a result of preparing investee companies for listing on stock markets. (See 2.2 below).</p>		<p>Indicators may be more easily found on impact at investee level. Assessment of wider demonstration merits is judgmental, unless supported by research.</p>
<p>2. Investee-Level Impact</p>		
<p>2.1 Skills with demonstration and wider dissemination potential:</p> <ul style="list-style-type: none"> - Manifest achievements in new managerial strategic and operational skills contributed to successful investee enterprises with potential for more widespread demonstration and replication. - Achievements in developing skills in private equity deal structuring, instruments, and new ways to invest that the fund staff can apply in follow-on funds, or when joining new private equity groups, banks or other financing. 		<p>“Early-stage” funds with interventionist strategy and clear capacity for providing continuing hands-on support to SMEs and to middle of the range companies can rationalized on this basis.</p>
<p>2.2 Demonstration and new standards-setting potential:</p> <ul style="list-style-type: none"> - As seen in new ways of operating businesses and competing, and where investee performance is comparable with relevant best industry benchmarks and standards - As evident in set standards in corporate governance and stakeholder relations 		<p>This indicator is designed to capture actual and potential demonstration effects, recognizing that prospects depend on a supportive investment environment.</p>
<p>Overall PSD Rating</p>		

ESHS = environmental, social, health and safety; IPO = Initial Public Offering; SME = small and medium enterprise; PSD = Private Sector Development; RRP= Report and Recommendation of the President.

^a Ratings scale: Unsatisfactory, Partly Satisfactory, Satisfactory and Excellent. The rating is not an arithmetic mean of the individual indicator ratings, and these have no fixed weights. Consider already manifest actual impact (positive or negative) and the potential further impact as well as risk to its realization.

**PRIVATE SECTOR DEVELOPMENT INDICATORS AND RATINGS:
FINANCIAL INTERMEDIARIES**

Indicators	Ratings ^a		Justifications
			Monitoring indicators can be partly derived from RRP. Several indicators are essentially judgmental. Their use and ratings should consider the operational context, and ADB aims, strategies and project proportions.
1. Wider Sector and Economy Impact Beyond Intermediaries and Sub-Borrowers			
1.1 Private sector expansion and institutional impact: 1.1.1 Contribution to an increased private sector share and role in the economy, and to sustainable jobs or self-employment. 1.1.2 Contribution to expanded SME lending with good portfolio and sub-borrower performance. 1.1.3 Contribution to institutional change by i) improved supply and access generally to formal credit and banking service to SMEs ii) influencing a more enabling environment for SMEs via lobby activity, policy dialogue, or otherwise in which the participant bank(s) become more engaged.			
1.2 Competition: Contribution to new competition in SME business among local banks (including new product and service offerings, local-currency products) and/or contribution to increased competition in key sub-borrower markets.			
1.3 Innovation: Contribution to new ways of offering effective banking services to SMEs (including new products, services, and technologies) in ways that are replicated by other banks and in the financial system. See 2.2 below.			
1.4 Linkages: Contribution to local savings and deposits mobilization via networks of participant bank(s), and/or relative to size of sub-portfolios; contribution to notable upstream or downstream link effects to sub-borrowers' businesses in their industries or the economy.			
1.5 Catalytic element: Contribution to mobilization of other local or international financing to SMEs, and by positive demonstration to market providers of debt and risk capital to SMEs.			
1.6 Affected laws, frameworks, regulation: Contribution to improved laws, regulation, and inspection affecting formal SME banks and banking services to SMEs in the local financial system.			
1.7 Wider demonstration of new standards. Contribution to raised standards in the financial sector or in sub-borrower industries and sectors in corporate governance, transparency, and stakeholder relations.			

SME = small and medium enterprise; PSD = Private Sector Development; RRP= Report and Recommendation of the President

^a Ratings scale: Excellent, Satisfactory, Partly Satisfactory, Unsatisfactory. The rating is not an arithmetic mean of the individual indicator ratings, which have no fixed weights. Consider already manifest actual impact (positive or negative) and the potential impact and risk to its realization.

Indicators	Ratings ^a	Justifications
2. PARTICIPANT BANKS AND SUB-BORROWER IMPACT		
2.1 Skills with wider impact potential: (i) Contribution to improved SME credit approach at all stages in the participant bank(s) in ways that will be replicated by other providers of SME finance and banking service; (ii) contribution via the participant bank(s) to improved sub-borrower skills in operation of their businesses, e.g., via good appraisal, conditioning, and monitoring by the bank(s)		
2.2 Demonstration and new standards-setting potential:		
- As evident in affected and achieved standards in corporate governance and transparency, stakeholder relations, and in ESHS spheres.		
Overall Rating		

ESHS = environmental, social, health and safety; SME = small and medium enterprise.

^a Ratings scale: Excellent, Satisfactory, Partly Satisfactory, Unsatisfactory. The rating is not an arithmetic mean of the individual indicator ratings, which have no fixed weights. Consider already manifest actual impact (positive or negative) and the potential impact and risk to its realization.

EVALUATION RATING SUMMARY, TEMPLATE FOR PPERs

**Table A8.1: Alternative for Evaluation Report Summaries
(Optional use in executive summary)**

Indicators/Ratings	Unsatisfactory	Partly Satisfactory	Satisfactory	Excellent
Development impact			x	
ADB Investment Profitability				x
ADB Work Quality				x
ADB Additionality			x	
	Unsuccessful	Partly successful	Successful	Highly successful
Overall Rating			x	

ADB = Asian Development Bank.

**Table A8.2: Alternative for Detailed Summaries or Main Texts
(Mandatory use in main text)**

Indicators/Ratings	Unsatisfactory	Partly Satisfactory	Satisfactory	Excellent
Development impact			x	
(i) Private Sector Development				x
(ii) Business Success			x	
(iii) Economic sustainability			x	
(iv) Environmental, Social, Health and Safety Performance			x	
ADB Investment Profitability			x	
ADB Work Quality			x	
ADB Additionality			x	
	Unsuccessful	Partly successful	Successful	Highly successful
Overall Rating			x	

ADB = Asian Development Bank.

**INTERNAL CIRCULATION MEMORANDUM – FORMAT FOR DRAFT NONSOVEREIGN
PPERs**

[Date]

To: Directors General, []
Country Director , []

Through: Director, OED

From: [], OED

Subject: **Investment []; Loan []; Guarantee []: [Investee Company]
Draft Project Performance Evaluation Report
—Request for Comments**

Attached is the draft project performance evaluation report (PPER) for this project. The PPER contains information that is subject to disclosure restrictions agreed between ADB and the relevant sponsor or recipient of funds from ADB. Recipients of this PPER should therefore not disclose its content to third parties, except in connection with the performance of their official duties, and only on a similarly confidential basis. Please forward your comments by [Date].

Appendix

cc: Directors General, OED, PSOD, SPD, RSDD, [RD concerned]
Directors/Heads, PSIF/PSOP, RMU, ERD, CTL, COSO, OCO
OED Central Files
Chrono File, Project File

STANDARD REFERRAL LETTER TO NONSOVEREIGN CLIENTS FOR CLEARANCE OF ANY PUBLIC DISCLOSURE OF PPERs

[Address Investee Company]

Dear [],

As part of the Asian Development Bank's (ADB) accountability framework, the Operations Evaluation Department of ADB has prepared a project performance evaluation report (PPER) in connection with its investment [] in, loan [], and guarantee [] to [investee company] in [Country].

In accordance with ADB's *Public Communications Policy*, ADB is required to disclose to the public certain information and reports relating to its operations. However, ADB will not publicly disclose confidential information, or information that, if disclosed, would be likely to materially prejudice the commercial and financial interests, and/or competitive position of the party that provided the information. Enclosed is a draft of the PPER. We would be grateful if you would review this draft and inform us if there is information in the PPER that is confidential or, if disclosed, would materially prejudice your commercial or financial interests and/or your competitive position and should therefore be redacted before the PPER is made publicly available by ADB.

Thank you for your assistance. If you have any queries in regard to the matters outlined above, please do not hesitate to contact [], OED.

Yours sincerely,

[],
Director, OED

cc: Country Director
[] Resident Mission

INTERNAL CIRCULATION MEMORANDUM – FORMAT FOR FINAL NONSOVEREIGN PPER

[Date]

To: Directors General, []
Country Director , []

Through: Director, OED

From: [], OED

Subject: **Investment []; Loan []: [Investee Company]
Project Performance Evaluation Report**

The attached project performance evaluation report (PPER) contains information that is subject to disclosure restrictions agreed between ADB and the relevant sponsor or recipient of funds from ADB. Recipients of this PPER should therefore not disclose its content to third parties, except in connection with the performance of their official duties, and only on a similarly confidential basis. ADB shall make publicly available a redacted version of this PPER which will exclude confidential information and ADB's assessment of project or transaction risks.

Appendix

cc: Directors General, OED, PSOD, SPD, RSDD, [RD concerned]
Directors, PSIF/PSOP, RMU, ERD, CTL, COSO, OCO
OED Central Files
Chrono File; Project File