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MEMORANDUM

TO : THE BOARDS OF DIRECTORS

FROM : Vasantt JOGOO
Ag. Secretary General

SUBJECT: EVALUATION GUIDELINES FOR PRIVATE SECTOR LINES OF CREDIT OPERATIONS *

Please find attached the above-mentioned document.

Attach:

*** Questions on this document should be referred to:**

Mr. G. GIORGIS	**Director**	**OPEV**	**Extension 2041**
Mr. H. MANAI	**Chief Evaluation Officer**	**OPEV**	**Extension 2416**
Mrs. G. HALL-YIRGA	**Principal Evaluation Officer**	**OPEV**	**Extension 2263**

SCCD: G. G.

AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND

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EVALUATION GUIDELINES FOR PRIVATE SECTOR LINES OF CREDIT OPERATIONS

OPERATIONS EVALUATION DEPARTMENT

SCCD: G. G.

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The Evaluation Guidelines for LOC Operations of the Bank were prepared by Mrs. G. HALL-YIRGA, Principal Post Evaluation Officer and Mr. M. MANAI, Chief Evaluation Officer. The Guidelines are based on MDB/ECG Guidelines, which were produced as part of the harmonisation efforts. Any further matters relating to the report may be referred to Mr. Getinet W. GIORGIS, Director, Operations Evaluation Department, extension 2041 or Mrs. G. HALL-YIRGA, extension 2263 or Mr. M. MANAI, extension 2416.

ABBREVIATIONS, ACRONYMS AND GLOSSERY

ADB/Bank	:	African Development Bank
ASR	:	Annual Supervision Report
CODE	:	Committee on Development Effectiveness
DFIs	:	Development Finance Institutions
ECG	:	Evaluation Co-operation Group
EHS	:	Environment, Health and Safety
ERR	:	Economic Rate of Return
FI	:	Financial Intermediary
FRR	:	Financial Rate of Return
GPS	:	Good Practice Standards
IFC	:	International Finance Corporation
LOC	:	Lines of Credit
MDB	:	Multilateral Development Banks
MFI	:	Micro-finance institution
OED	:	Operations Evaluation Department of the World Bank
OEG	:	Operations Evaluation Group
OPEV	:	Operations Evaluation Department of the Bank
OPSD	:	Private Sector Department of the Bank
PCR	:	Project Completion Report
PFI	:	Private Financial Intermediary
PPER	:	Project Performance Evaluation Report
RMC	:	Regional Member Countries
RODE-PSO	:	Report on Development Effectiveness of Private Sector Operations
SE	:	Self-Evaluation
SMEs	:	Small and medium-size enterprises
XASR	:	Expanded Annual Supervision Report for Self Evaluation

GLOSSERY

Term	Descriptions
Company:	The entity implementing the project and, generally, the Bank's investment counter-party; for financial markets operations, it refers to the financial intermediary (or fund manager) as distinct from its portfolio of partially Bank-financed sub-project companies (which are referred to project).
Investment:	The Bank's financing instrument(s) in the operation: loan, guarantee, equity, underwriting commitment, etc.
Operation:	The Bank's objectives, activities and results in making and administering its investment.
Private Sector Lines of Credit	Funds provided in the form of loans to financial intermediaries for purpose of on-lending to sub-projects in the private sector of a client country.
Development/Public Finance Institution	Refer to the legal entity in which sovereign LOCs are extended
Private Financial Intermediary (FI or PFI)	Refers to the legal entity in which non-sovereign LOCs are extended.
Financial Markets Project	All projects where the company is a financial intermediary or financial services company, including agency lines and private equity funds.
Non-financial Markets Project	All other projects; sometime referred to as "real sector" projects.
Bank's front-end work quality	How well the Bank did its job-against established good practice standards- economic and sector works, screening, appraising and structuring the project and its investment, including its instrument selection?
Bank's role and contribution	Role refers here to the at-approval need and rational for the Bank's participation in a project's financing, where as contribution refers to the Bank's value-added over an operation's life (from screening to evaluation and beyond) in enhancing the project's financial and development success prospects for all stakeholders
Quality at entry	The investment and development success prospects of newly committed investments and their related projects at time of entry into the Bank's portfolio, taking into consideration (i) the project's relative intrinsic risk; (ii) the relative risk of the associated Bank instrument (loan, equity, etc) and its terms and prospects for value realization; and (iii) the Bank's front-end work quality.

Term	Descriptions
Disclosure	The systematic distribution of evaluation findings through various media (including mainly the Bank's external website) to the public at large, normally subject to certain restrictions specified in a Board-approved disclosure policy
Dissemination	The systematic distribution of evaluation findings through various media within the Bank, generally without restriction as to contents, with the aim of promoting awareness and reinforcement of corporate objectives, success standards, accountability, and use of lessons for improved results
Early operating maturity	Financial markets projects with identifiable sub-projects financed by the MDB's investment are deemed to have reached *early operating maturity when:* • For lending operations: at least 18 months shall have elapsed after the MDB's final disbursement of its loan. • For investment funds: substantially all of the projects financed will have generated at least 12 months of operating revenues (Source: MDB-ECG Good-Practice Standards for evaluation of Private Sector Investment Operations, Second edition, May 16, 2003).

1 RATIONALE AND PURPOSE OF THE GUIDELINES

1.1 In line with the instruction of CODE, OPEV developed, in 2004, Monitoring and Evaluation Guidelines for Private Sector Department (OPSD) to be applied for direct lending operations in RMCs. Considering the growing size of Lines of Credit (LOCs) operations of the OPSD, it is now timely to also prepare specific evaluation guidelines to be used for LOCs extended to private financial intermediaries (PFIs). The 2004 Guidelines for direct lending and these Guidelines for LOCs operations are in line with the Multilateral Development Bank/ Evaluation Cooperation Group (MDB/ECG) Good Practice Standards for Evaluation of Private Sector Investment Operations.

1.2 The Guidelines are prepared for self-evaluation and independent evaluation of the OPSD's LOCs extended to PFIs. The Guidelines are organized as follows: This introductory Section 1 is followed by Section 2 that covers the responsibility and scope of self-evaluation, formats used and reporting requirements. Section 3 covers the responsibility and scope of independent evaluation, formats used, and reporting and dissemination requirements. Section 4 deals with the Evaluation Framework covering the evaluation dimensions, indicators and rating scales to be applied for the self- and independent evaluation. All the formats and details on evaluation dimensions are presented in the Annexes.

2. SELF-EVALUATION

2.1 Responsibility for Self Evaluation

Self-Evaluation is the tail end of monitoring. The Private Sector Department (OPSD) of the Bank is responsible to carry out self-evaluation of its LOCs extended to PFIs.

2.2 Annual Supervision Report

2.2.1 These guidelines do not cover the full function of monitoring since OPSD currently has Portfolio Management Manual to carry out its monitoring function. Currently, OPSD undertakes desk and field supervisions of its portfolio and produces **Annual Supervision Report** on each operation including LOCs. Preparation of this ASR should continue but additional format discussed below need to be used also to capture the development outcomes of the LOCs extended to PFIs.

2.2.2 It needs to be noted that evaluation function could be facilitated if the monitoring system is effective; and the latter in turn could be effective provided the front-end activities and appraisal functions are well carried out with clear benchmarks and indicators that have to be monitored throughout the project/investment/LOC cycle.

2.2.3 The current monitoring function deals with the inputs and outputs of the LOCs and the performance is mainly monitored from commercial point of view. The reporting does not capture intermediary and end results (development outcomes). These guidelines provide an additional Format that can assist to capture data and information on Development Outcomes to enhance the content of the Annual Supervision Report. This extended self-evaluation scope caters for the results-based management principle that should reflect "what gets measured, gets done", and "what gets done, gets measured coherently and consistently".

2.2.4 OPSD should continue to carry out its front-end activities, investment appraisal, supervision and monitoring functions taking into account the above-cited considerations to facilitate results-based monitoring and self-evaluation. For purpose of tracking these evaluation dimensions, the additional Format presented in Annex 1 (**Additional Format for Supervision of LOCs**) needs to be prepared by PFIs along side the existing formats such as **Annual Environmental Monitoring and Compliance Report and the Quarterly Portfolio Monitoring Report on Sub-Projects** (Covenants compliance). Attachment 1 of Annex 1 is provided to serve as check list relating to the front-end activities and monitoring functions.

2.3 Expanded Annual Supervision Report

To date the Private Department of the Bank (OPSD) does not produce self-evaluation report on its LOCs operations other than the Annual Supervision Report. These Guidelines provide a self-evaluation tool referred to **Expanded Annual Supervision Report (XASR)**, which is adopted from the MDB/ECG Good Practice Standard for Evaluation of Private Sector Investment Operations. Henceforth, OPSD will prepare the XASR for each LOC operation that is selected based on *early operating maturity* criteria. The MDB/ECG investment maturity standard will be applied to determine the readiness of the LOCs for self-evaluation, which is described as follows:

Financial markets projects with identifiable sub-projects financed by the MDB's investment are deemed to have reached early operating maturity when:

- ***For Lending operations: at least 18 months shall have elapsed after the MDB's final disbursement of its loan.***
- ***For investment funds: substantially all of the projecs financed will have generated at least 12 months of operating revenues***

Source: MDB-ECG Good-Practice Standards for evaluation of Private Sector Investment Operations, Second edition, May 16, 2003).

2.4 XASR Format

The Format and content of XASR is presented in Annex 2. This is the only tool to systematically self-evaluate the development results of OPSD's LOCs extended to the PFIs. The Format has two parts: The first part covers the Basic Data about the LOC, description of the LOC, evaluation findings, and lessons and recommendations. The second part covers summary of self-evaluation ratings. The formats presented in Attachment 1 and 2 of Annex 2 should continue be used for reporting on sub-projects.

2.5 Evaluation Timing and Coverage

OPSD prepares self-evaluation reports (XASRs) for **all** LOCs that have reached *early operating maturity*. At the beginning of the XASR cycle, the Portfolio Management Division will decide on the XASR delivery dates, which will be approved by the OPSD Director as part of the OPSD's **annual** work program.

2.6 Tasks

The tasks for the preparation of the XASR involve desk review, discussion with available staff involved with the operations since its inception; independent research (for example on intermediate outcomes or likely development outcomes); a field visit to the financial intermediary and sub-projects to observe and assess outcomes; discussions with parties who are knowledgeable about the country, the economy, financial sector, etc.). The tasks to be carried out for Self-Evaluation are summarized in **Nine Steps**[1] presented in Annex 3**.**

3. INDEPENDENT EVALUATION

3.1 Responsibility for Independent Evaluation

The Operations Evaluation Department (OPEV) is mandated to carry out independent evaluation of all Bank Group operations including LOCs operations of the Bank.

3.2 Tasks

3.2.1 OPEV's independent evaluation begins upon receipt of the Expanded Annual Supervision Report (XASR) from OPSD. This involves reviewing all XASRs received (through consulting LOCs files) and preparing a Review Note and the Rating Validation Sheet with its independent ratings (clearly highlighting its findings and basis for its judgements where its ratings differ from those in the XASR).

3.2.2 The Review Note is a tool to validate the XASR (self-evaluation). The Review Note comments on the XASR as to:

- The quality, appropriateness and coverage in each section
- Inclusion of key data and supporting material
- Adequacy of analyses, objectivity and soundness of judgement
- Appropriateness and completeness of the identified lessons
- Consistency and quality of ratings (impartiality and consistency in rating judgements)

3.2.3 OPEV has full discretion to undertake field mission on any operation. It will normally be so under the following one or a combination of conditions:

- where an XASR's findings raise substantive validation or credibility challenges;
- where XASR's quality was so poor as to not allow the evaluator to independently establish the appropriateness of the XASR's ratings;
- where it considers it will be useful for learning purposes.

3.2.4 By carrying out field missions, OPEV is able to gather additional information and data that allow it to review the LOC in a new light and finalize the Review Note and the Rating Validation Sheet.

[1] Adopted from IFC Guidelines

3.2.5 The Director of OPEV clears the Review Notes along with the completed Rating Validation Sheets for transmission to CODE for information.

3.3 Review Note Format and Rating Validation Sheet

3.3.1 The Review Note consists of four main sections: Validation of Analysis in the XASR, Validation of Overall Conclusions in the XASR, Overall Rating of the XASR, and Follow-up Action.

3.3.2 The Review Note Rating Validation Sheet is prepared to confirm with the XASR findings and ratings or recasting the findings and ratings differing from that of the XASR resulting from the XASR Review Note.

3.3.3 The formats relating to the Review Note and Rating Validation Sheet are presented in Annex 4. Where a field mission is conducted, Attachment 2 of Annex 2 (Environment, Health and Safety (EHS) Assessment Report) should also be prepared in order to validate the findings relating to EHS.

3.4 Annual Review Report on Private Sector Portfolio Evaluated (Annual Synthesis Reporting)

The Annual Private Sector Portfolio Evaluation Report will be elaborated by OPEV to give an overview of the private sector portfolio evaluated during the year (both for direct and indirect lending operations) using, as input, the findings in the Review Notes and the Rating Validation Sheets. A Format for the preparation of the Annual Report is provided in Annex 5. A guide for reporting issues and lessons is given in Attachment 1 of Annex 5 (please refer also to the Manual- Monitoring and Evaluation Guidelines for Private Sector Projects Funded by ADB, Ref. ADB/BD/WP/2004/12).

3.5. Overall Evaluative Scope

3.5.1 The scope of XASR and Review Note as well as the Annual Synthesis Report includes at a minimum:

- The projects and LOC's development outcomes (intermediate and end results), i.e. "results on the ground" relative to the Bank's mission;
- The Bank's investment's profitability (contribution to its corporate profitability objectives); and
- The Bank's work quality (also referred to as bank handling, operational effectiveness, or execution quality).

3.5.2 These dimensions along with their indicators and rating scales are discussed in detail in Section 4.

3.6 OPEV's Reporting

OPSD will be given opportunity to comment on the draft Evaluation Notes including Rating Validation Sheet and the Annual Synthesis Report before they are finalized. This does not imply that OPEV will agree and accept the comments. OPEV's final reports will be submitted to CODE for information or discussion as the case may be.

3.7 Management Responsibility

3.7.1 If reports are submitted to CODE for discussion, Management is required to prepare and submits to CODE, for simultaneous consideration with OPEV's reports at CODE meeting, a memorandum commenting on OPEV's findings and responding to each of its recommendations.

3.7.2 Management maintains a tracking system for recording its disposition of each recommendation.

3.8 Dissemination

OPEV makes available to Bank staff the findings and lessons derived from its evaluation work. This is done through a range of user-friendly dissemination venues.

3.9 Application of Lessons

It is the responsibility of Management/OPSD to ensure that past lessons have been systematically identified and applied in new operations.

3.10 Disclosure

The Bank revised its disclosure policy in March 2004[2] will be applied. For private sector operations including LOCs, the required confidentiality of private companies/enterprises will be observed in line with the Bank's disclosure policy.

3.11 Revision

These Guidelines are prepared for the first time to cover OPSD's LOC provided to private financial intermediaries in RMCs. The Guidelines will be revised as and when the need arise to respond to the evolution of the financial intermediation of the Bank in RMCs and the feedback for the end users as well as the outcome of the on-going revision of the MDB/ECG Good Practice Standards for enhanced harmonization.

[2] The African Development Bank Group Policy on Disclosure of Information, March 2004.

4. EVALUATION FRAMEWORK

4.1 General

This evaluation framework is based on the Good Practice Standards developed by MDB/ECG relating to private sector investment operations.[3] The evaluation framework defines the dimensions in the light of the policies and strategies applicable for Lines of Credit operations. Appropriate indicators and ratings are provided to facilitate the evaluation. Henceforth, the OPSD of the Bank evaluates and rates LOCs operations to private financial intermediaries on three distinct dimensions using indicators and rating scales outlined below.

4.2 Dimensions, Indicators and Rating Scales

4.2.1 Three evaluation dimensions are considered to serve as pillars for which performance indicators and rating standards are provided. The three evaluation pillars are evaluated on a four-point scale (4 to 1): Highly Satisfactory (Exellent)-4, Satisfactory (Satisfactory)-3, Unsatisfactory (Partially Satisfactory)-2 and Highly Unsatisfactory (Unsatisfactory)-1. The scales applied are the ones currently used by OPEV. The scales in parenthesis are used in the MDB/ECG Good Practice Standards for Evaluation of the private sector investment operations. There is currently an on-going review to update the existing evaluation methodology of OPEV and any refinement in this scale should automatically be applicable for these Guidelines. There is also an on-going revision of the MDB/ECG Good Practice Standards for enhanced harmonization, which may call for further revision of these guidelines.

4.2.2 ***Development Outcomes***: An LOC operation's development outcome encompasses all effects that affect a country's economic and social development. Development outcomes are evaluated on a "with versus without the LOC operation" basis, i.e. considering (1) what happened with the operation and, (ii) counterfactually, what would have happened without it. Attribution may be difficult but contribution could be established. Distinguish, to the extent possible, the sub-projects from the PFI's performance. For example, when an LOC was to support Small and Medium Enterprises (SME) lending which only constitutes a small portion of the PFI's portfolio, the evaluation should focus on the SME's performance more than the PFI's overall performance.

4.2.3 Four major indicators are used to evaluate the Development Outcomes of the LOC operations- Business Success, Economic Sustainability, Environmental Effects and Private Sector Development. The dimensions and ratings of each are briefly covered below; while details on evaluative scope and issues are provided in Annex 6.

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[3] The IFC Financial Markets instructions revised 2004 (which are the basis for the MDB/ECG good practice standards) have also been consulted for details on definition of terms, indicators and benchmarks:
http//www.ifc.org/oeg

1. <u>Business Success</u>: This covers the performance of the LOC and the sub-projects and their contribution to the PFIs profitability, financial condition, and development, as well as the related objectives established at approval. This indicator measures the LOC's long-term outcome on the PFI's as well as the sub-projects profitability and viability. This is captured through evaluating the PFI's and the sub-projects business performance (Annex 6 for details).

a. PFI's Business Performance: This evaluates the financial institution's prospects as a viable, locally and/or internationally competitive financial intermediary. The evaluation should focus on any issues that might threaten the financial institution's survival and thus could endanger its business success. Indicators such as Financial Rate of Return (FRR), and other financial ratios should be analyzed to evaluate the financial soundness of the PFI. When FRR determination becomes difficult, the evaluative judgment should be based on the likely incremental impact of the LOC on the PFI's profitability and the proxy is the estimated margin between the cost of funds (LOC interest rate and fees) and the PFI's revenue generated by the LOC (interest income and fees net of loan loss provisions). Utilization of the LOC is also considered to be an indicator of outcome as long as the purpose it is used for could be verified. Rate the PFI's performance as follows:

- Highly Satisfactory: the LOC has been fully utilized for agreed purposes and has substantially raised the institution's profitability (net income).
- Satisfactory: the LOC has a neutral to positive effect on profitability (or adequate overall profitability, i.e. satisfactory long-term return for the institution; and/or funds are substantially used for the agreed purposes.
- Unsatisfactory: the LOC is partially utilized and/or the LOC's returns were insufficient to cover cost of associated debt.
- Highly Unsatisfactory: the LOC is substantially unutilised for the agreed purposes and/or returns are highly insufficient to cover cost of associated debt (or expected long-run returns less than cost of debt financing). The low utilization of the LOC failed to lead to the intended expansion of term lending to sub-projects.

b. <u>Sub-Projects Business Performance:</u> The LOC's business success is evaluated relative to the objective established at approval and on the performance of the sub-projects and their profit generating capacity not only to service their debts but also to be able to expand and remain financially sustainable. First and foremost, the sub-projects should be profitable and secondly, the funds provide are used for the agreed purposes (not diverted for other use). Rate the performance as follows:

- Highly Satisfactory: LOC's objectives/expectations such as profitability largely surpassed and funds were fully used for the agreed purposes at appraisal.
- Satisfactory: LOC objectives/expectations and the sub-project profitability broadly achieved and funds were substantially used for the agreed purposes at appraisal or diverted funds are sufficiently justifiable.
- Unsatisfactory: a good number of the sub-projects fail to contribute to meeting the LOC objectives/expectations such as profitability and funds were substantially diverted for other uses not agreed at appraisal or diverted funds are partially justifiable.

- Highly Unsatisfactory: Substantial number of the sub-projects failed to contribute to meeting the LOC objectives/expectations such as profitability and funds were fully diverted for other uses not agreed at appraisal and their use not justifiable.

2. <u>Economic Sustainability (Contribution to Economic Growth and Outcome on Living Standards/Poverty Reduction:</u> The Bank's purpose is to "further economic development…. in its RMCs" (encouraging private sector development is the means to achieving that purpose), and the Bank's mission is ultimately to "help reduce poverty and improve people's lives". Growth and development are not synonymous, but economic growth provides the resources necessary for development. Even if the intermediary is getting paid, the development outcomes of the sub-projects financed can still be unsatisfactory. The PFIs need to provide the expected development outcomes (intermediary outcomes and end results) on sub-projects and track these during monitoring. This would enable the Bank to ensure that sub-projects that fall outside the objectives of the LOC would not be financed. **This should not be construed as the Bank having been party to the credit decision of the PFI. It would only be understood by the PFIs that such requirements would ensure that the sub-projects financed would not only be able to have business success but also developmental outcomes.** Thus, to the extent possible, assess the sub-project's outcome on people other than the investors in PFI: owners of PFI client companies and their customers and employees, government, competitors, local residents, etc. (Annex 6 for details). Indicators such as Economic Rate of Return (ERR) and other proxies should be used to evaluate the LOC's contribution to economic growth. When ERR determination becomes difficult, the rating judgment should be instead based on whether (1) the PFI considers economic sustainability, not just financial viability, in its sub-projects financing decisions (e.g. (not) lending to protected sectors; (2) whether the sub-projects are financially viable; and (3) whether sub-borrowers operations are affected by economic distortions. Rate contribution to economic growth as follows:

- Highly Satisfactory: when the vast majority of sub-projects are economically viable, they have made a substantial and widespread contribution to job creation, improving living standards, significantly contributed to poverty reduction, etc.;
- Satisfactory: when most of the sub-projects are economically viable, they have made contribution to job creation, improved living standards and contributed to reduction of poverty; etc.
- Unsatisfactory: when a large portion of the sub-projects is not economically viable, they have not contributed positively to living standards, job creation, poverty reduction, etc.
- Highly Unsatisfactory: when the majority of sub-projects is not economically viable, they have negatively affected living standards, contributed to job loss and aggravate poverty.

3. <u>Environmental Effects</u>: The Bank's policy requires that all its operations be carried out in an environmentally and socially responsible manner. This covers both the environmental and social performance of sub-projects financed and the PFI environmental management system. It is the responsibility of the PFI to obtain accurate information on the sub-project's environmental effects. Environmental performance should be evaluated and rated as follows:

- Highly Satisfactory: the PFI and the sub-projects engage in practices or sets standards beyond those required for the type of operation.
- Satisfactory: the PFI and the sub-projects meet requirements for the type of operation.
- Unsatisfactory: the PFI and the sub-projects do not meet the requirements for the operation, and there is reason to believe that the relevant operation is resulting in some negative environmental outcomes; or there is evidence that some portion of the intervention is resulting in negative environmental outcomes.
- Highly Unsatisfactory: the PFI and the sub-projects do not meet requirements for the type of operation and there is evidence that a significant portion of the intervention is resulting in materially negative environmental outcomes.

4. Outcome on Private Sector Development (Contribution to Private Enterprise and Financial Market Development and Enabling Environment): The Bank's Private Sector Policy specifies that the Bank shall play its catalytic role to strengthen the performance of the financial intermediaries (financial market development) and help create conditions conducive to the flow of private capital into productive investment (private enterprises and private sector development particularly small and medium enterprises (SMEs). This indicator addresses to what extent the LOC has contributed to this purpose beyond the financial institution. **It should be noted that not all LOCs are expected to improve the financial market development and the enabling environment or are geared towards SMEs. It should also be noted that micro-finances are more suited to have more outcome on small and micro-enterprises development.** Rate the performance as follows:

- Highly Satisfactory: considering the size, the LOC considerably improved the enabling environment or made a substantial contribution to the growth of private enterprises and private sector as well as financial market development beyond the financial institution.
- Satisfactory: the LOC had some positive outcomes towards the growth of private enterprises and private sector development as well as financial market development.
- Unsatisfactory: the LOC had not contributed to growth of private enterprises and private sector development as well as financial market development.
- Highly Unsatisfactory: the LOC had contributed negatively to the growth of private enterprises and private sector development as well as financial market development.

4.2.3 **Overall Development Outcome:** This is a synthesis of the above four evaluation dimensions (business success, economic sustainability, environmental effects, and private sector development) and determines how well the operation has contributed to the overall development outcome in the country of operation and implicitly addresses how well the LOC has contributed to fulfilling the Bank's purpose and mission. The overall development outcome is a bottom-line assessment of the operation's results on the ground, relative to what would have occurred without the LOCs. This is rated on a six-point scale indicated below (Annex 6 for details). Ratings from mostly unsuccessful to highly unsuccessful are considered as low outcomes and those from mostly successful to highly successful are considered as high outcomes.

- Highly successful: The LOC has overwhelming positive development outcomes, without any flaws- financial sustainability, job creation; value addition, poverty alleviation, etc.
- Successful: The LOC is without material shortcomings, or some very strong positive aspects that more than compensate for such shortfalls.
- Mostly Successful: The LOC have some shortcomings, but with a clear preponderance of positive aspects.
- Mostly Unsuccessful: The LOC has either few minor shortcomings across the board, or some major shortcoming in one area that outweighs other generally positive aspects.
- Unsuccessful: The LOC has largely negative aspects, clearly outweighing positive aspects.
- Highly Unsuccessful: The LOC has material negative development aspects with no material redeeming positive aspects to make up for them.

4.2.4 ***Investment Outcomes:*** Investment performance is essential to the Bank's sustainability and to accomplishing its corporate purpose. This section assesses the extent to which the Bank has realised to date, and expects to realise over the remaining life of the LOC income that was expected at approval. The primary indicator for this rating is whether the PFI is current on its payments to the Bank (interest, fees, etc.). It is also important to assess the likely future debt-servicing capacity of the client PFI. This is assessed on a 4 point scale (Highly Satisfactory, Satisfactory, Unsatisfactory, and Highly Unsatisfactory) as follows.

- Highly Satisfactory: fully performing in all respect – fully paid or expected to be paid as scheduled and their profit contribution is well over their full transaction costs. There is no indication that debt service payments will not remain current in future.
- Satisfactory: loan expected to be paid as scheduled; or loan is prepaid and the Bank has received at least 50% of the interest. There is no indication that debt service payments to the Bank will not remain current in future.
- Unsatisfactory: loan is prepaid and the Bank has received less than 50% of the originally expected interest income (net of prepayment penalties received); or loan has been rescheduled, or guarantee (if any) is called and in either case the Bank expects to receive not sufficient interest income to recover all of its funding cost originally expected. There is doubt whether payments can remain current.
- Highly Unsatisfactory: loan is non-accrual status; or the Bank has established specific loss reserves; or loan has been rescheduled but the Bank does not expect to recover loan funding cost; or loan has been or is expected to be wholly or partially converted into equity in restructuring of a “problem” LOC; or the Bank experiences a loss on its guarantee (if any).

4.2.5 ***Bank's Operational Effectiveness(Work Quality):*** This section addresses three areas of Bank's operational performance: (1) screening, appraisal and structuring; (2) supervision/monitoring; and (3) role and contribution. This evaluation depends on understanding the Bank's expectations at approval and comparing them to the actual outcomes. A comparison of appraisal projections and actual or expected outcome and the reasons for material performance variances should be presented (Annex 6 for details).

1. Screening, appraisal, structuring: This relates to the Bank's professionalism in executing its front-end works. Evaluate the Bank's processing of the operation at entry based on principal variances between expectations at approval and actual outcomes. Specifically, analyse and comment on the effectiveness of the Bank's assessment of the financial institution and management, profitability prospects; and the mechanism of overseeing the profitability prospects and environmental appraisal of sub-projects. Evaluate issues relating to the Bank's loan covenants, if any, and whether these covenants were relevant, practical and contributed to the realisation of operation objectives. Assess the reasoning for the low utilization of the LOC and how well the LOC was prepared in the first place in particular whether the Bank systematically verified the demand for term financing and the acceptability of the terms proposed. Rate the Bank's screening, appraisal and structuring as follows:

- Highly Satisfactory if the Bank's front-end work could serve as a best-practice example and has substantially contributed to the achievement of development outcome and its investment profitability;
- Satisfactory if it met the Bank's good-practice standards and has contributed to the achievement of development outcome and its investment profitability;
- Unsatisfactory if there was some shortfall in a few important areas such as failed repayment, low utilization of the LOCs;
- Highly Unsatisfactory if there were material shortfalls in several areas or a glaring mistake or omission bordering on negligence in at least one important area such as total failure in contributing to the achievement of development outcome and its investment profitability.

2. Monitoring (Supervision and Administration): This relates to the Bank's professionalism in executing its supervision/monitoring function. Assess whether the financial institution's reporting, and the Bank staff visits were adequate to monitor developments, ensures compliance with covenants and contributes to the operation's success. Evaluate the adequacy of the monitoring of the financial institution and sub-projects' environmental performance. Review previous Annual Supervision Reports (ASRs) and compare them to the XASR findings, and explain any major discrepancies. Rate the Bank's Monitoring Performance as follows:

- Highly Satisfactory if the Bank was always fully informed about the operation's and financial institution's performance in all material areas and used this knowledge proactively when needed to improve the operation's development outcome and/ or the Bank's investment outcome;
- Satisfactory if the Bank was sufficiently informed to react in a timely manner to any material change in the operation's and financial institution's performance;

- Unsatisfactory if the Bank's supervision was insufficient to monitor the operation's and financial institution's performance and/or did not cater to timely intervention;
- Highly Unsatisfactory if the Bank missed material developments, and/or did not use information to intervene before a crisis.

3. **Role and Contribution:** This relates to the Bank's proactive catalytic role in fulfilling its additionality and complimentarity contribution through its intermediation in the financial markets. In extending the LOC and monitoring the operation, to what extent did the Bank adhere to its corporate, country, and sector strategies and business principle, play a catalytic role, and make a special contribution? Is additionality and complimentarity observed? Was the Bank timely and efficient, and was the client satisfied? (Annex 6 for details). Assess the operation's genesis, the rational for the Bank's support, and the Bank's involvement in the operation (through out the LOC cycle). As the basis for assessing the Bank's role and contribution, consider what would have happened if the Bank had not extended the LOC. In addition consider possible additional value that the Bank could have contributed to the operation's design, or done differently to improve the PFI's performance and development outcomes. Apply the following ratings:

- Highly Satisfactory: the Bank's role was essential for the operation to go ahead and the Bank made a major contribution to make it a success;
- Satisfactory: the Bank's role and contribution were in line with its operating principles;
- Unsatisfactory: the Bank's role or contribution fell short in a material area;
- Highly Unsatisfactory: the Bank's role was not plausibly additional and the Bank's expected contribution was not forthcoming.

4.2.6 ***Bank's Overall Effectiveness Rating:*** The overall effectiveness rating is based on the three indicators (1) appraisal, (2) monitoring, and (3) role and contribution. This synthesis rating reflects a judgment of the overall quality of the Bank's due diligence and value added at each stage of the operation to a country's development and to the Bank's profitability. The rating should be as follows:

- Highly Satisfactory: Bank's performance was exemplary;
- Satisfactory: Bank's performance was up to a high professional standard;
- Unsatisfactory: There was a material shortfall in a few major areas;
- Highly Unsatisfactory: There were shortfalls in several major areas, which lead (or could have led) to unsatisfactory development or investment outcome.

Additional Format For Supervision of LOCs

Format for Tracking Performance and Intermediate Development Outcomes

A. STATUS OF COMPLIANCE WITH PRINCIPAL COVENANTS

Reporting requirements	
Insurance Adequacy (if applicable)	

Comment: environmental compliance has been included in Section C (Project Performance).

B. FINANCIAL CONVENANTS (as applicable)

Borrowing Limits	
Investment Limits	
Lien Restrictions	
Financial Ratios	
Others (indicate as appropriate)	

C. PERFORMANCE

Apply Section 4 of the Guideline in preparing this format	Objectives/indicators defined in investment proposal	Findings on objectives/indicators	Reason for achievements and deviations*	Follow-up or Adjustment measures proposed	Ratings
1. Situation Before LOC	Indicate clearly objectives and indicators included in Investment Proposal. If objectives and indicators are not stated clearly in investment proposal state expectations prior to field visit or indicators/objectives defined in earlier ASRs	State the findings of the Annual Supervision (field supervision, report review and others) on the objectives/indicators	These can include: - Project internal factors - Changes in project external factors (e.g. enabling environment) -Unrealistic appraisal assessment - Unrealistic assumptions - Poor front-end work	State measures proposed and responsible person(s) to implement the measures	
2. Implementation: LOC disbursement Progress Describe how disbursement to sub-projects is progressing with reference to the implementation plans made in the investment proposal or defined before field visit. - on time/behind or ahead of schedule - project achievements/results during the year -unforeseen significant events/results (internal and external)					
3.Project Implementation Capacity Describe the capacity of the company (PFI) to implement the project (LOC) until now. Describe possible needs for strengthening of capacities. Include: -Management capacity -Technical capacity (sub-project appraisal, supervision, reporting)					
4. Development Outcomes At early stages of the project (LOC), outcomes can be difficult to assess.					

Apply Section 4 of the Guideline in preparing this format	**Objectives/indicators defined in investment proposal**	**Findings on objectives/indicators**	**Reason for achievements and deviations***	**Follow-up or Adjustment measures proposed**	**Ratings**
However, indications of whether the project is moving towards the development outcome planned should be monitored, using the performance dimensions below.					
4a. Business Success Describe the financial position and performance of the company (FI and sub-projects).Review the financial ratios as appropriate.					
4b. Economic Sustainability Describe the contribution of the project (LOC) to economic growth, improved people's lives and poverty reduction Should include direct and indirect stakeholders. Can include employment creation, employment conditions, employment of vulnerable groups etc.					
4c. Environmental and Social Sustainability FIs environmental management capacity; sub-projects compliance with Bank standards at appraisal and with current Bank standards. If any changes in Bank standards have been made, this should be noted and it should be assessed how the project can comply with new standards. Possible consequences in terms of changes of project plans or support should be noted.					
4d. Private Sector Development Contribution to growth to productive private enterprises, flow of private capital, improvement in financial institutions and financial markets. If factors, which were not included in the investment proposal (or earlier ASRs), are found to be important, please include those, marking them clearly as new.					

Apply Section 4 of the Guideline in preparing this format	**Objectives/indicators defined in investment proposal**	**Findings on objectives/indicators**	**Reason for achievements and deviations***	**Follow-up or Adjustment measures proposed**	**Ratings**
5. Bank's Investment Profitability Assess the Bank's investment profitability (loan income, arrears, etc).					
6. Bank's Operational Effectiveness Describe to which extent monitoring and supervision has followed the Bank procedures, timeliness, client satisfaction, feedback, etc. Describe to which extent and how Bank involvement and support has contributed significantly to the project and/or the company, additionality effect, etc. Describe whether Bank has played a catalytic role; improvement in governance of the financial market, etc. Project/LOC in relation to Country Strategy Paper;					
Early Warning Signals State signs in any of the above findings if there are indications that the investment could become a problem investment. Refer to the definition of early warning signals for the investment made at appraisal (or latest changes in ASRs).					

Note: Project and LOC are used interchangeably. PFI and FI are used interchangeably

**PREREQUISITES/ FRONT-END ACTIVITIES
AND MONITORING FUNCTIONS**

This Attachment is included to flag out the importance of front-end activities and effective monitoring that could facilitate self-and independent evaluation.

1. Strategy: At present the Bank extends LOCs to both the public and private sector financial intermediaries in a given country that cater to the same client base. This has the tendency of overcrowding the use of the instrument giving conflicting signals in the criteria applied to the financial intermediaries and sub-projects. **There is, therefore, the need for the Public Sector and Private Sector windows to work together through joint preparation of the Country Strategy Papers clearly delineating the roles and responsibilities of the public sector and the private sector of the Bank's organizational units.** The role and involvement of each should be determined on the basis of the type of risk involved, the capacity of participating financial institutions to manage risks, the extent to which the instrument's objectives are linked to policy reforms or other sectoral issues, and the possible justification for a sovereign risk guarantee. The public sector of the Bank should be engaged more in addressing constraining factors in the enabling environment as a top priority for achieving improved development outcomes in financial intermediary operations. In the case of World Bank and IFC for example, while IFC has the "right of first refusal" with regard to LOC operations in a specific country, their operations are considered to be not easily interchangeable. In most cases, they are complementary. The World Bank's financial intermediation operations typically support policy reforms, address institutional issues and perceived distortions within the financial sector, which may therefore go beyond the investment objectives that are normally central to IFC. For this reason, greater consultation and coordination exist within the World Bank Group regarding financial sector instruments to better realize synergies. A similar approach needs to be taken by the Bank's public sector and private sector organisational units for their operations carried out through financial intermediations.

2 Preparation and Appraisal Phase: OPSD should clearly understand the financial intermediaries' policies and procedures used for the selection and appraisal of sub-borrowers and projects. The conventional commercial banking criteria used to appraise financial intermediaries and sub-projects need to be extended to include developmental considerations systematically. OPSD needs to carefully analyse the financial intermediary's appraisal and on-lending capabilities. OPSD needs to effectively mainstream project risk analysis in investment appraisal, structuring and loan pricing. This phase should consider the likely outcome of the macro-economic environment and prospective client base for the LOCs and ascertain the financial intermediary's business and objectives are consistent with the Bank's development objectives. Thorough assessment of the quality of management needs to be made as this is a key factor in determining the success of the financial intermediary or the sub-projects. OPSD needs to emphasize that achieving development outcome is at least as important as acceptable investment returns and high volumes. Thus, monitorable LOC specific development objectives need be routinely articulated at preparation and appraisal stages.

3 Monitoring (Portfolio Management): The Portfolio Management Division of OPSD has primary responsibility for the day to day management of all the portfolio related activities after the first disbursement on the project/LOC, until final closure of the project/LOC. OPSD needs to routinely track during supervision whether its agreement with the financial intermediary is implemented and the LOCs are achieving their development objectives. This includes:

- Requiring financial intermediaries to report systematically on the sub-projects financed (including on their financial and economic viability, and their environmental performance), and routinely cover these aspects in the Bank's Annual Supervision Reports (ASRs);

- Include selected site visits to sub-projects during supervision missions;

- Ensuring that standard prudential limitations against concentration on sector or other exposures are applied.

- Ensuring that the ASRs are prepared without fail to help take preventive action.

- Ensuring that the financial intermediary's awareness of environmental issues or their capacity to manage them is well addressed and the Bank's procedure for Environmental and Social Review of the LOC requires the intermediary to implement an environmental management system.

In general, the focus of OPSD supervision should not be limited to credit risk of financial nature. OPSD should track monitorable indicators of whether the Bank's development objectives are being met, in particular, whether its intermediary operations are financing sustainable and environmentally sound private enterprises; and should take action if they are not. Achievement of the development objectives should be tracked during supervision and receive prominent weight in unit and individual performance evaluations. As such, OPSD should review how to strengthen the resources and incentives to ensure that staff members of the Portfolio Management Division devote sufficient resources, time and effort to carry out result-based supervision/monitoring of the LOCs.

SELF-EVALUATION: EXPANDED ANNUAL SUPERVISION REPORT (XASR) YEAR

Country: Project Name-

XASR Team:

List all team members who substantially contributed to this XASR

Project Description, objectives and rationale: Start the evaluation findings with a brief description of the project, its objectives, its rationale and the "without project" conterfactual- a plausible paragraph on what you believe would have happened if the project had not proceeded. A starting point may be the project documentation at approval, but usually more information about what would have happened without the project is available at the evaluation stage (e.g knowledge about external factors, etc). It is not always easy to assess what would have happened without the project, but this section should offer an educated and plausible guess.

Evaluation Methodology and Approach: Describe briefly the constraints in the availability and collection of data as well as the sources and methods of primary and secondary data collected and the methodology applied.

Explanation of each rating and rationale

A. Development Outcome- Rating

Rationale: Provide a brief rational for the overall development outcome rating, which synthesizes the project's contribution to a country's development and the Bank's purpose and mission. Use the 6-point scale from highly successful to highly unsuccessful.

1. Business Success –Rating: for all indicators provide the appropriate rating on a 4 point-scale from highly satisfactory to highly unsatisfactory

   Rationale: For all indicators, provide a brief rationale for the rating. The rationale should be brief (bullet points are acceptable) and to the point.

2. Economic Sustainability –Rating: same as above.

   Rationale:

3. Environmental Effects – Rating: same scale as above.

   Rationale:

4. Private Sector Development – Rating: same scale as above.

   Rationale:

B. Investment Outcome: Rating: same scale as above

Rationale:

Loan (LOC): Rating

Rationale: There is no need to provide a separate rationale if Bank had either only a loan or only an equity investment

Equity: Rating

Rationale: Not applicable if the Bank had no equity investment

C. Bank's Work Quality – Rating:

The standard is whether the Bank did a good job. Don't let the outcome of the project unduly affect the effectiveness ratings. A bad result can be caused by factors beyond the Bank's control. Be they unforeseen (e.g. force majeure) or foreseen (e.g. realized market risk)

Rationale:

Screening, Appraisal and Structuring – Rating: same scale as above.

Rationale:

Supervision and Administration – Rating: same scale as above.

Rationale:

Role and Contribution – Rating: same scale as above.

Rationale:

Lessons emerging from experience to date: Lessons should be self-standing and useful for investment staff not familiar with the project

➊

What Bank expected at approval –
What actually happened –
Why things turned out the way they did –
Lesson for future operations –

❷
What Bank expected at approval –
What actually happened –
Why things turned out the way they did –
Lesson for future operations –

❸
What Bank expected at approval –
What actually happened –
Why things turned out the way they did –
Lesson for future operations –

❸
What Bank expected at approval –
What actually happened –
Why things turned out the way they did –
Lesson for future operations –

Source: Adopted from the IFC- Financial Market Guidelines, internet, 3/28/2005

SUMMMARY OF RATINGS
Country: Name of Project/LOC

OVERALL RATINGS

	Highly Unsuccessful / Unsuccessful	Mostly Unsuccessful	Mostly Successful / Successful	Highly Successful
DEVELOPMENT OUTCOME	LOW		HIGH	
	Highly Unsatis-factory	Unsatis-factory	Satis-factory	Highly Satisfactory
1. Business success				
2. Economic sustainability				
3. Environmental effects				
4. Private Sector Development				
BANK'S INVESTMENT OUTCOME				
5. Loan (LOC)				
6. Equity				
BANK'S WORK QUALITY				
7. Screening, appraisal & structuring				
8. Supervision & administration				
9. Role & contribution				

The summary of the above ratings should be depicted in the four squared boxes below for each project by highlighting the box that reflects the overall ratings with regard to development outcome and investment outcome. Explain the overall underlying factors for the overall outcome (which ranges over a 6-scale from highly unsuccessful to highly successful.

Describe in the separate box below to show how well or how bad the Bank's operational effectiveness fare vis-à-vis the overall ratings for development and investment outcomes.

Note that an unsatisfactory development and investment outcome can be caused by external factors, unforeseeable (e.g force majeure), or foreseen (e.g realized market risk). A satisfactory outcome can be achieved even though the Bank did a poor job appraising and supervising the project, had insufficient role and made no contribution. However, if the Bank did (or could have and did not) improve the project's development or investment outcome, this should be reflected in this section.

GUIDANCE NOTE FOR SUB – PROJECT INFORMATION

Question	Guidance
Is project current on debt service obligations (yes/no)?	If any projects are not current on their debt payments, attach separate sheet to explain, For example: Project #, Payment overdue by X days, Recovery (i) very likely; (ii) likely; (iii) unlikely; (iv) very unlikely,
Is project benefiting from protection or government subsidies (yes/no)?	Protection can be in form of import duties (or import bans) on competing products, restriction of competition (e,g. particularly onerous licencing conditions, monopoly rights),etc, Subsides can either be direct government payments, subsidized prices for inputs or outputs, export incentives, etc, If 'yes' is the case for any sub-project, attach a separate sheet indicating sub - project number and a brief description of the protection or subsidy,
Is project in compliance with local environmental guidelines (yes/no)?	Attach a separate sheet to explain, If 'yes', explain how compliance was assessed; if 'no', mention areas of non - compliance, If the same procedure to assess compliance applies to all sub - projects, one statement for all sub - projects suffices; Otherwise, provide project - specific information,
Currency	Whenever providing monetary information please provide currency and unit of account.

LOC: SUB-PROJECT INFORMATION (BACKGROUND)

Loan	Name of client	Sector	Exporter (approx, percent export, 0 if no)	Original loan size	Date of disbursement	Date of maturity	Is project still in grace period (yes/no)	Out standing Balance	Is project current on debt service obligations (yes/no)?	Is project benefiting from protection or government subsidies (yes/no)?	Is project in compliance with local environmental guidelines (yes/no)?
1											
2											
3											
4											
5											
6											
7											
8											

LOC: SUB – PROJECT INFORMATION (FINANCIALS)

Loan 1	0	1	2	3	4	5	6	7
Sales								
Net profit after tax								
Net worth								
Employment								

Loan 2	0	1	2	3	4	5	6	7
Sales								
Net profit after tax								
Net worth								
Employment								

Loan 3	0	1	2	3	4	5	6	7
Sales								
Net profit after tax								
Net worth								
Employment								

Loan 4	0	1	2	3	4	5	6	7
Sales								
Net profit after tax								
Net worth								
Employment								

Loan 5	0	1	2	3	4	5	6	7
Sales								
Net profit after tax								
Net worth								
Employment								

ANNUAL PROJECT ENVIRONMENTAL AND SOCIAL REVIEW

<table>
<tr><td colspan="12">Background</td></tr>
<tr><td>Country</td><td>Project name</td><td colspan="2">Project ref</td><td colspan="8">Date of approval:</td></tr>
<tr><td colspan="2">XASR Date</td><td colspan="10">Review Note Date:</td></tr>
<tr><td colspan="12"></td></tr>
<tr><td colspan="12">ESHS finding[4], issues and lessons
A/ What the Bank expected at approval ?
B/ What actually happened ?
C/ What things turned out the way they did ?
D/ Lessons for future operations.</td></tr>
<tr><td colspan="4">OVERALL ENVIRONMENTAL;SOCIAL; HEALTH; & SAFETY RATING;</td><td colspan="4">Review Rating</td><td colspan="4">XASR Rating</td></tr>
<tr><td colspan="4">ENVIRONMENTAL EFFECTS</td><td>HU</td><td>U</td><td>S</td><td>HS</td><td>HU</td><td>U</td><td>S</td><td>HS</td></tr>
<tr><td colspan="4">PROJECT SCREENING, PREPARARTION &- APPRAISAL; BANK’s WORK QUALITY (ESHS ONLY)</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="4">SUPERVISION ; BANK’s WORK QUALITY (ESHS ONLY)</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="4">ROLE / CONTRIBUTION; BANK’s WORK QUALITY (ESHS ONLY)</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="12">Rationale for Divergence / General Comments:</td></tr>
</table>

[4] ESHS: Environmental, social, Heath and Safety

ANNUAL PROJECT ENVIRONMENTAL AND SOCIAL REVIEW

DESCRIPTION	XASR RATING	REVIEW RATING	REMARKS FOR CHANGES
RATE AS APPLICABLE			
Environmental, Social and Health Effects			
Wastewater treatment			
Air emission			
Solid waste management			
Management and storage of hazardous materials			
Child and Forced Labor			
Workplace Air Quality			
Workplace Noise			
Ambient Noise			
Work in confined spaces			
Health-Concern (Such as HIV/AIDS)			
Safety-Concern			
Drinking Water			
Category A-Projects			
International waterways			
Indigenous Peoples			
Involuntary Resettlement			
Cultural poverty			
Natural Habitats			
Pest Management			
Forestry			
Safety of Dams			
Environmental Management			
Existence of policy, procedure, responsibility staff to handle environmental management			
Provision of Training in Environmental Management			
Submission of Annual Monitoring reports for direct projects			
Submission of Annual Report summarizing subprojects' environmental performance			
General Compliance Assessment			
Bank policy compliance			
Corporate environmental management capacity			
Category A Subprojects – meet applicable guidelines – EIA[5] Study			
Category B Subprojects – have EMP[6]			

[5] EIA : Environmental Outcome Assessment
[6] EMP : Environmental Management Plan

DESCRIPTION	XASR RATING	REVIEW RATING	REMARKS FOR CHANGES
Bank clearance, Public consultation and EA of category A sub – projects.			
Bank clearance of each sub-project			
Others: Specific			

STEPS FOR THE PREPARATION OF XASR

1. **N**otify the team: The required team is formed and notified. The team should consist of:
   - **Investment Officer/Analyst**
   - **Environmental specialist (if required)**
   - **Economist**
   - **Engineer (in the case of direct lending)**
   - **Others (such as legal, risk management, etc.) as required**

2. **I**nstruct yourself: The task manager reviews the documents available within OPSD on the LOC.

3. **N**ose around the project files: Learn as much as you can from the
   - **Appraisal document**
   - **Board document**
   - **Supervision document such as Annual Supervision Report (ASR)**
   - **Correspondences**
   - **Other files**

4. **E**xchange Views: conduct interview as needed with the following:
   - **Investment Officers involved in the appraisal (and others as necessary)**
   - **Economists**
   - **Country Office/Regional Office**
   - **Board representative as necessary**

5. **S**end questions to client: prepare written questions to help gather more information and data:
   - **Fill in gaps**
   - **Accurately develop still-to-go projections**
   - **Get transitional outcomes**
   - **Determine environmental compliance**

6. **T**ravel: the task manager with appropriate staff-mix conduct field trip to:
   - **Verify information**
   - **Ask about the Bank's effectiveness**
   - **Meet other stakeholders**
   - **Investigate development outcomes**
   - **Identify and visit projects and compile data using Attachment 1 for direct lending and 2 in the case of LOC**

7. **E**xecute: Write up the XASR
   - **Condense the information to fit the XASR format**
   - **Assign ratings**
   - **Formulate major issues and lessons (refer to section 4.5)**
   - **Get comments on the draft through Working Group Meetings**

8. **P**rocess/**P**ermission: get clearance from:
   - **Portfolio Management Division Manager**
   - **OPSD Director**
   - **Working Group Meetings (that includes all relevant departments)**

9. **S**et it loose: forward the report through OPSD Director
   - **To Management**
   - **To OPEV**

OPEV REVIEW NOTE ON THE XASR

Project Number: Project Title:

Country: Sector:

Validation Dimension	Rating (4-point scale)	Remarks
A. Validation of analysis		
Adequacy of analysis of project objectives, expected results and formulation (including the indicators/benchmarks, consistency with appraisal and subsequent revision).		
Adequacy of analysis of project implementation and status as well as project context.		
Soundness of judgment on project's development outcome as assessed based on business success; economic sustainability; environmental and social sustainability and private sector development.		
Soundness of judgment on the Bank's investment profitability.		
Soundness of judgment on the Bank's operational effectiveness.		
B. Validation of overall conclusions		
Responsiveness of the XASR to its scope.		
Reliability of the overall analysis.		
Impartiality and consistency in individual indicator's rating judgment.		
Consistency of overall performance dimension ratings with individual rating components.		
Appropriateness and completeness of conclusions, identified issues, lessons and recommendations.		
C. Other issues (specify in any)		
13		
D. Overall rating of the XASR		

OPSD's overall ratings of the project (from the XASR)
OPEV's overall ratings of the project (from Rating Validation Sheet) If there is rating differences, provide reasons for the differences:
OPEV's final ratings to be maintained including justification (from Rating Validation Sheet):

Performance dimension/indicator	OPEV's Rating	Justification for adjustment
Conclusion:		

Follow-up action/decision:
Priority of Project for Outcome, Sector, Country or Thematic Evaluations (tick relevant)

Project is the first of its type in the sector (sub-sector Project is part of a series and is suitable for cluster evaluation Project has innovative, is large or complex Project highly successful or unsuccessful Project has high priority for outcome evaluation Thematic or special evaluation studies (specify) Other (specify)	☐ ☐ ☐ ☐ ☐ ☐

A four-point scale is to be used for rating the XASR. The four points are defined as follows:

4 = Highly satisfactory. No significant qualifications. Use the Rating Validation Sheet for purpose of confirmation;

3 = Satisfactory. Some qualifications, but generally acceptable. Use the Rating Validation Sheet format for purpose of confirmation and analysis as required;

2 = Unsatisfactory. Qualifications calling for adjustments/improvements of the XASR analysis using the Rating Validation Sheet;

1 = Highly unsatisfactory. Significant qualifications calling for significant improvements of the XASR. This rating may call for thorough review of documents to prepare the Rating Validation Sheet. There may also be a need to conduct field mission.

OPEV XASR RATING VALIDATION SHEET

Project information	Country and project name:	Sector:
Project Ref: Approval Date:	XASR release date:	
XASR Department/Division:	XASR team:	
2. Major Issues:		
3. Main Lessons:		

Performance Ratings*

XASR RATINGS / REVIEW RATINGS

	XASR HU	XASR US	XASR MU	XASR MS	XASR SU	XASR HS	REVIEW HU	REVIEW US	REVIEW MU	REVIEW MS	REVIEW SU	REVIEW HS
Development Outcome												

	XASR HU	XASR U	XASR S	XASR HS	REVIEW HU	REVIEW U	REVIEW S	REVIEW HS
Business success								
Economic sustainability								
Environmental effects								
Private Sector Development								
Bank's Investment Outcome								
Loan (LOC)								
Equity								
Bank's Work Quality								
Screening, appraisal & structuring								
Supervision & administration								
Role & contribution								

* HU – Highly unsuccessful; US – Unsuccessful; MU – Most unsuccessful; MS – Mostly successful; SU – Successful; HS – Highly successful
HU – Highly unsatisfactory; U – Unsatisfactory; S – Satisfactory; HS – Highly Satisfactory

Ratings differences (if any) and underlying reasons

Additional information considered in OPEV's ratings (desk review or field findings)

Responses from XASR team to OPEV's ratings and comments

Best-practice XASR? ☑ Yes ☐ No	OPEV recommends this XASR for posting in SHARING (OPEV's Quarterly Bulletin)
Prepared by:	Date:

FORMAT FOR THE PREPARATION OF THE ANNUAL REVIEW REPORT ON PRIVATE SECTOR PORTFOLIO EVALUATED

This is carried out annually based on desk review of the findings in the Review Notes and Ratings of the Independent Evaluation. It is prepared to give an overall view of the private sector operations, the main findings, lessons and recommendations and the extent the lessons have been used in subsequent operations.

The report should include:

The number and volume of operations that underwent independent evaluation during the year;
The rating criteria and benchmarks applied for the evaluation;
A synthesis description and analysis of the ratings patterns;
Main findings
Lessons learned for improving performance and development outcomes.
Annexes

Table of Content

Abbreviations, Acronyms and Glossary
Executive Summary
Background
Objective of the Review
Scope and Methodology
Main findings by evaluation dimensions
- Direct Lending (projects)
- Indirect Lending (LOCs and others)

Lessons and Recommendations

Annexes:

- A Table showing the evaluated projects and LOCs with XASR ratings (where ratings of OPEV and OPSD differ, OPEV rates should be used and this should be indicated);

- Synthesis of ratings by development and investment outcomes;

- Ratings Trends between successive reports;

GUIDE FOR REPORTING ISSUES AND LESSONS

In general reporting issues and lessons from the evaluation will hinge on the following main principles:

- Focus on most important issues and the lessons of general relevance to the Bank's operations that could guide the Bank in screening, structuring, and appraisal, negotiation, supervision and post-evaluation.

- Consider (1) the issues' materiality and relevance to the operation's outcome, and (2) what, with hindsight, the Bank should have done to improve the operation's overall performance.

- The lessons should cover three parts: one is on Bank Policy and Guidelines; the second is on the Operation Process within the Bank; and the third is on the portfolio performance (the results on the ground).

- Focus on how the Bank can improve its policy and enhance private sector development, its operational effectiveness as well as the development and investment outcome of its operations.

- The lessons on portfolio performance should be self-standing, transparent, prescriptive, and operationally oriented with a view to providing guidance for improving future performance.

- The lessons drawn in the Review of Development Effectiveness of Private Sector (RODE-PS) and special studies should derive in part from the performance rating patterns for the projects/LOCs reviewed and an analysis of their drivers, particularly in the case of those indicators rated better or worse than satisfactory.

- Be specific and focus on suggestions to improve quality. For example:
    - If PFI management was weak, consider how the Bank could have (i) discovered this weakness and appraisal, (ii) better mitigated the risk, and (iii) intervened more effectively when the problem was detected. It is not a helpful lesson to write, "ensure that FI management is strong".

    - If the financial projections proved materially optimistic, consider the underlying reasons (e.g. flawed forecasting models, little experience of the forecasters, poor training, and too much optimism) and formulate the lessons and recommendations for achieving a better forecast next time. It is not a helpful lesson to write, "make realistic projections".

    - If the project featured negative sociological or environmental effects, consider whether and how the Bank's procedures should be adapted to address these potential effects in the appraisal, covenant formulation, disbursement and supervision stages.

  - It is not helpful to write, “make sure that adequate account is taken on environmental effects”.

- If the Bank’s investment featured high risks, consider (i) whether the screening tools should be sharpened to make this prospect more evident, or (ii) whether and how the Bank might have structured its loan to better balance the risk and reward prospect.

- The issues and lessons should be summarized using the following format:
  - What did we expect at approval?
  - What actually happened?
  - What went wrong or particularly well?
  - What did we learn? Lesson for future operations.

Source: IFC: Financial Market Instructions revised 2004: http://www.ifc.org.oeg

DETAILS ON EVALUATION DIMENSIONS AND INDICATORS

A. Development Outcome

Four major indicators are used to evaluate the development outcomes of the operations- Business Success, Economic Sustainability, Environmental Effects and Private Sector Development.

1. Business Success

This covers the performance of the LOC and the sub-projects and their contribution to the FIs profitability, financial condition, and development, as well as the related objectives established at approval. The LOCs business performance measures the project's long-term outcome on the FI's profitability and viability. Investors have diverse goals, but ultimately there is only one bottom line: financial returns. Sufficient financial returns are necessary to attract and reward private investment.

The Bank's LOC is a **targeted funding**, where the Bank wishes to encourage the FI to develop business in specific sectors (SMEs, exporters, micro-finance, etc) and therefore the use of funds is expected to be limited to the identified sector rather than the FI's overall portfolio.

LOCs may include "institution-building" components (possibly through technical assistance), which may not have a quantifiable financial return. These should be considered under this rating to the extent that they have affected the FI's profitability, or are likely to affect it in the future. An example of capacity building would be development of staff skills and procedures (such as credit skills and loan appraisal standards) that will allow profitable pursuit of operations beyond the Bank-financed project at reduced transaction costs.

a. The FI's Business Performance

The financial institution's success is evaluated on the performance of the financial intermediary itself. An effective financial intermediary should be financially sound, well managed and have a significant distribution capacity in its market to provide access to a wide range of potential sub-borrowers. It is rated on its performance to-date and its prospects as a sustainable, resilient, profitable, well-managed, domestically or internationally competitive, and environmentally compliant intermediary. The financial intermediary's business performance measures the actual LOC's contribution to the performance of the financial institution as reflected by the projected financial outcome on the institution and the institution's overall financial performance. Financial rate of returns (FRRs) are to be calculated for measuring the overall performance of the LOC. The FI can incur substantial losses even if the Bank is getting paid, pointing to the limits of inferring development effectiveness from the Bank's investment performance.

It should be pointed out that it is not always easy to calculate the FRRs. In which case, the evaluative judgement should be based on the likely incremental outcome of the LOC on the FIs profitability, and the proxy is the estimated margin between the cost of funds (LOC interest rate and fees) and the FI's revenue generated by the LOC (interest income and fees net of loan loss provisions). Utilization of the LOC should also be considered to be an indicator of positive outcome of the LOC subject to the verification of its utilization. The evaluation should also discuss the main risk areas identified by analysing the FI's financial statements, e.g. capital adequacy, asset quality and structure, provisioning adequacy, industry sector concentrations, foreign exchange exposures (including mismatches between sub-loan currency and the currency of sub-borrower revenues) and interest rate exposures. In this context, the evaluation should assess the operating policies of the FI to ascertain whether the risks are being prudently managed.

Indicators: As stated above, the best indicator is the FRR. Several financial ratios and proxies could also be applied to evaluate the financial soundness of the financial intermediary. The rating should be done on the expected institution's business success according to the LOC's expected (long-run) financial outcome on the financial intermediary and institution's performance trends.

It is to be noted that successful financial institutions can have unsuccessful sub-projects and vice versa. Comment on the financial institution's prospects as a viable, domestic/internationally competitive financial intermediary. Focus on any issues that might threaten the financial institution's survival and thus could endanger realization of the still-to-go LOCs benefits.

b. Sub-Projects Business Success

The LOC's business success is evaluated relative to the objective established at approval and on the performance of the Bank-financed sub-projects. If the financial intermediary is getting paid, the development effects of the sub-projects financed can still be unsatisfactory. The FIs need to provide more information on sub-projects along during implementation. This would enable the Bank to ensure that sub-projects that fall outside the objectives of the LOC would not be financed. This should not be construed as the Bank having been party to the credit decision of the FI. It would only be understood by FIs that such requirements would ensure that the sub-projects financed would not only be able to have business success but also developmental outcomes.

Indicators: The best indicators are the financial performance of the sub-projects and the purpose for which the sub-loan was used.

2. Economic Sustainability (Contribution to Economic Growth and Outcome on Living Standards/Poverty Reduction

The Bank's purpose is to "further economic development…. in its RMCs" (encouraging private sector development is the means to achieving that purpose), and the Bank's mission is ultimately to "help reduce poverty and improve people's lives". Growth and development are not synonymous, but economic growth provides the resources necessary for development. Projects with high economic returns contribute to a country's economic growth, whereas those with low or negative economic returns detract from it.

This section evaluates the LOC's and sub-projects' effects on the local economy and the associated benefits and costs. The evaluation should address to what extent, as a result of the LOC, resources are being allocated more efficiently and in particular to what extent the FI's portfolio or the sub-projects are providing a net economic benefit. To this end, assess the LOC's outcome on people other than the investors in the FI: owners of FI client companies and their customers and employees, government, competitors, local residents, etc. Examples of economic benefits and costs accruing to them are:

- benefits or costs for FI clients associated with cost of, or ease of access to, financial services, indicating increased or decreased financial market efficiency;

- contribution to government revenues, for example resulting from taxes paid by the FI or by sub-projects;

- contribution to widely-held development objectives such as poverty alleviation, social or gender equality, concern for child labor, or regional development;

- community services such as supporting local industry groups, education programs, community facilities;

- employment generated/preserved, training, real wages, quality of the workplace, non-wage employee benefits (e.g. pension funds, medical treatment, education of dependents).

Indicators: The best indicator of an LOC's contribution to economic growth is its economic rate of return (ERR), which measures (quantifiable) net economic benefits. **It should be noted that it is not always easy to calculate Economic Rate of Return on financial market interventions.** In which case, the rating judgement should be based on other proxies such as (1) the FI considers economic sustainability on a broader scale such as assessing the level of economic distortions in the client country; applying due diligence to ensure that the sub-borrower financial decisions are prudent (e.g. not lending to protected sectors; (2) assessing that sub-borrowers are financially viable with no distortions; and (3) sub-borrower operations are not adversely affected by economic distortions. The sub-projects should be assessed against the following criteria:

- Use of local raw materials or other inputs;
- Linkage with local suppliers or processors;
- Enhancement of competition in the borrower's sector
- Transfer of skills to local management or staff;
- Earnings or savings in foreign exchange from expansion of local production;
- Creation of additional employment (or protection of existing jobs in enterprises threatened with closure);
- Potential of replication of new products or processes;
- Respect for sound environmental practices

3. Environmental Effects: The Bank's policy requires that all its operations be carried out in an environmentally and socially responsible manner. This is not only sound business practice, but also a necessary condition for sustainable development. The goal of the Bank's environmental requirements for FIs is twofold: (1) enhance the environmental management capacity of the FI; and (2) fund sub-projects or catalyze investments in projects whose operations meet the applicable Bank environmental requirements. Thus, the indicator considers both the environmental and social performance of sub-projects financed by the FI and its environmental management system. Environmental effects include the LOC's outcomes through assessing the sub-projects on the physical environment and social, cultural, and health and safety issues, all of which should be considered. It should be noted that obtaining accurate information on the sub-project's environmental effects could be a challenge.

<u>Indicators</u>: environmental performance should be evaluated relative to current requirements, i.e. those requirements that would apply if the LOCs were approved today and what requirements were considered at approval in the light of the environmental category applied for the project at approval and that would apply today.

4. <u>Outcome on Private Sector Development (Contribution to Private Enterprise and Financial Market Development and Enabling Environment):</u> The Bank's Private Sector Policy specifies that the Bank shall play its catalytic role to strengthen the performance of the financial intermediaries (financial market development) and help create conditions conducive to the flow of private capital into productive investment (private enterprises and private sector development). This objective could be measured in terms of improvements in the financial sector and the business environment as a whole catalysed by the LOC. The Bank encourages the growth of productive private enterprises particularly SMEs. This addresses to what extent the LOC has contributed to this purpose beyond the financial institution. Important factors to consider are:

- outcome on domestic financial market development through enhanced competition, increased liquidity, new products, improved service, easier access to financing for domestic clients (e.g. SMEs);
- demonstration effects in the local economy, attracting investments in other intermediaries;
- greater resource allocation efficiency beyond the project FI and resource mobilization beyond the project;
- introduction of international accounting standards and/or enhanced disclosure standards;
- new technology, development of management skills, and employee training;
- stronger local entrepreneurship or enhanced private ownership;
- the FI's governance quality, reputation and business practices as a positive corporate role model and quality investment asset.

This indicator also assesses whether LOC-related technical assistance or the activities and services resulting from the LOC have helped create conditions conducive to the flow of private capital into productive investment. This might include changes in the specific lows, regulations or an improvement in their administration and enforcement.

- Evaluate whether the LOC has stimulated the development of term lending as a significant and sustainable line of business and whether the FI's and the sub-projects' activities and services have brought about enhanced economic environment such as competitive markets; improvement in incentive and regulatory systems; efficiency in social, physical and technological infrastructure that increases the long-term competitiveness of the economy and reduces transaction costs.

- Possibilities include a review of sub-borrower financials, especially between loan disbursement and to the present time to analyse profitability and growth, as well as data on employment, linkages, technologies used, etc.

It should be noted that not all LOCs are expected to improve the financial market development and the enabling environment or are geared towards SMEs. It should also be noted that micro-finances are more suited to have more outcome on small and micro-enterprises development.

Indicators: Use indicators such as the LOC's outcome on domestic product or services through assessing the sub-projects with respect to enhanced competition, new products, improved services, etc; stronger local entrepreneurship or enhanced private ownership; new technology, development of management skills, and employee training; upstream and downstream linkages to new or expanding local businesses; the sub-projects' governance quality, reputation and business practices as a positive corporate role model and quality investment asset.

Overall Development Outcome: This is a synthesis of the above four evaluation dimensions (business success, economic sustainability, environmental effects, and private sector development) and determines how well the operation has contributed to the overall development outcome (the results on the ground) in the country of operation and implicitly addresses how well the project has contributed to fulfilling the Bank’s purpose and mission. The evaluation should show how the Bank’s activities help create a sustainable private sector (with due consideration to the Environment, Health and Safety aspects) in RMCs leading to growth in the economy, reduced poverty and improved living standards.

Indicators and Evaluation Standard: Development outcome ratings are based on the above stated four indicators (business success, economic sustainability, environmental effects and private sector development) to measure a distinct aspect of the operation's performance and outcome of the intervention. The development outcome rating is a bottom-line assessment of the operation’s results on the ground, relative to what would have occurred without the LOCs on a six-point scale (1-6): highly successful (6), successful (5), mostly successful (4), mostly unsuccessful (3), unsuccessful (2), and highly unsuccessful (1). Within that range, the actual rating is not a mechanical weighting of the six indicators. Instead it is determined case by case considering the relative importance of each indicator in the LOC operation and what performance would have been necessary for the operation to merit the next higher or lower development outcome rating.

The overall development outcome is finally categorised as low or high. Ratings from mostly unsuccessful to highly unsuccessful are considered as low outcomes and those from mostly successful to highly successful are considered as high outcomes.

B. Investment Outcomes

Investment performance is essential to the Bank's sustainability and to accomplishing its corporate purpose. This section assesses the extent to which the Bank has realised to date, and expects to realise over the remaining life of the investment, the LOC income that was expected at approval. Where the investment involves LOC and equity participation, the rating is a synthesis of the separate ratings of the two investments. Here only the rating for LOC is considered.

Indicators: The primary indicator for this rating is whether the FI is current on its payments to the Bank (interest, fees, etc.). It is also important to assess the likely future debt-servicing capacity of the client FI – for example, recent payments may have been made, but the outlook for future payments is doubtful, which may be caused by the deteriorating macroeconomic situation in the country, deteriorating interest income of the FI (possibly due to poor portfolio performance), excessive foreign exchange or off-balance sheet exposures that could produce a large one-off loss to the FI.

It should be noted that ratings of satisfactory and highly satisfactory are considered to give high investment outcome, where as ratings of unsatisfactory and highly unsatisfactory are considered to give low investment outcome.

C. Bank's Operational Effectiveness (Work Quality)

This section addresses three areas of Bank's operational performance: (1) screening, appraisal and structuring; (2) monitoring; and (3) role and contribution. This evaluation depends on understanding the Bank's expectations at approval and comparing them to the actual outcomes. A comparison of appraisal projections and actual or expected outcome and the reasons for material performance variances should be presented. The outcome should not unduly affect the effectiveness ratings. An unsatisfactory development and investment outcome can be caused by unforeseeable external factors (e.g. market risk or force majeure), and a satisfactory outcome can be achieved even though the Bank did a poor job appraising and monitoring the operation, had insufficient role and made no contribution.

The Bank's work quality is judged against established good-practice standards, such as those embodied in the LOCs policy and guidelines. As far as possible, work quality is evaluated independently from the LOC's outcome to avoid bias in the ratings, although in practice actual LOC results can influence work quality ratings. For example, LOC performing poorly can expose or exaggerate weaknesses in Bank's structuring or supervision, which in the absence of material negative variances, might have gone undetected, or been given less weight. Conversely, an LOC that is performing very well may be doing so despite initial Bank weaknesses that might, under different circumstances, have been readily exposed. The overall work quality rating can be no lower than that of the worst of the three indicators and no higher than that of the best indicator.

Some evaluative questions to be answered in order to better understand the issues and enable the evaluation of the operational effectiveness, include:

- What needs to be done with respect to front-end activities to help better structure the LOC instrument and facilitate the appraisal and monitoring and evaluation of LOCs?
- Are goal and objectives clear in investment appraisal reports;
- Do Bank's appraisal reports include appropriate indicators to measure transitional and long-term development outcomes?
- Are assumptions made about the Lines of Credit at approval clear and monitorable?
- Do Bank's supervision guidelines and formats permit capturing intermediary outcomes and likelihood of achieving developmental outcomes?
- Is there a need to modify existing manuals for appraisal and supervision functions to effectively present expectations with monitorable indicators, and capture intermediary outcomes and likelihood of achieving overall developmental outcomes?
- Is Logical Framework used in the appraisal of LOCs? Does the Logical Framework currently being used include outcomes?

1. Screening, appraisal, structuring:

This relates to the Bank's professionalism in executing its front-end work. The Bank's operating policies and procedures (particularly private sector) on LOC provide guidance on what the Bank considers an appropriate professional standard. Some evaluative questions are:

- How well did the Bank perform at the initial stages of the operation cycle?
- Were there material variances from the appraisal assumptions about the financial intermediary and sub-projects, the enabling environment, and performance prospects (including environmental performance) that, with good due diligence should have been anticipated at **screening and appraisal**?
- Were material risks identified and did the Bank mitigate them appropriately within good-practice financial disciplines and prescribed Bank policies and procedures?
- Had the Bank critically assess whether the macro-economic environment would be conducive to productive investment, ascertained that the financial intermediary's business strategy and pricing were compatible with its own objectives?
- Had the Bank ensured identifying a specific pipeline of eligible and viable sub-projects, which are able to bear foreign exchange risk?
- Had the Bank had a clear understanding on the financial intermediary's policies and procedures for the selection and appraisal of sub-borrowers and sub-projects?
- Had the Bank entered into precise agreements with the financial intermediary on lending policies and the criteria for selecting eligible sub-projects to enhance the achievement of developmental objectives of LOCs?
- Did the Bank ensure that the financial intermediary has and employ adequate appraisal methods including financial and economic rate of return on sub-projects?
- Did the Bank effectively appraise the financial intermediary's ability to effectively reach the targeted enterprises?
- Did the Bank focus on the improvements in policies and procedures necessary to improve the financial intermediary's on-lending capability prior to providing the LOC?
- Were the **structuring** of the project took account of the identified risks and mitigating measures?
- Were the terms and conditions suitable for both the FI's and the Bank's needs? Loan covenants should be adapted to the particular country and project, depending on the adequacy of local supervision standards, local financial market development, and the FI's track record.
- Was loan pricing commensurate with market practices and risks?
- Were there any conflicts or coordination issues with the terms of co-financiers' loans?
- Were the loan covenants relevant, practical, and contributed to mitigating risks and realizing objectives?
- Was the risk-reward profile acceptable? Keep in mind that not all risks can be mitigated, but the risk-reward profile should be acceptable.
- Did the Bank identify the most important risks that could reasonably have been identified at the appraisal stage, and mitigate them to the extent possible?
- Did the Bank take account previous lessons learnt in structuring the project?
- Were appropriate reporting requirements incorporated into legal documentation to enable the Bank to monitor compliance and track the fulfilment of development objectives identified at appraisal.

- Were the identified training needs and procedural adjustments, particularly with respect to environmental matters, reflected in project structure and conditionalities?
- Does the project documentation include a definition of "eligible borrower" for LOCs so that the FI would be aware of the Bank's targets and requirements?
- Does the reporting requirement for LOC include regular and detailed reports on sub-projects?

In general, with hindsight, how well did the Bank perform in screening, appraising and structuring the operation?

Indicators and Evaluation Standard: Evaluate the Bank's processing of the operation at entry based on principal variances between expectations at approval and actual outcomes. Specifically, analyse and comment on the effectiveness of the Bank's assessment of the financial institution and management, profitability prospects; and the mechanism of overseeing the profitability prospects and environmental appraisal of sub-projects. Evaluate issues relating to the Bank's loan covenants, if any, and whether these covenants were relevant, practical and contributed to the realisation of operation objectives. Evaluate if there were any conflicts or co-ordination issues with the terms of co-financiers' LOC. Assess the reasoning for the low utilization of the LOC and how well the LOC was prepared in the first place in particular whether the Bank systematically verified the demand for term financing and the acceptability of the terms proposed.

2. Monitoring (Supervision and Administration):

This relates to the Bank's professionalism in executing its monitoring function. Some evaluative questions are:

- How well did the Bank address reporting requirement, desk and field supervision of the operation, detect emerging problems and respond expeditiously with effective interventions?
- Did the Bank tool effective steps to ensure that the financial intermediary's appraisal methods and decision-making processes were adequate.
- Did the supervision reports critically assess the performance, realized development benefits and environmental outcome of the sub-projects actually financed? Monitoring should not only focus on the financial performance of the intermediaries (and prospects for repayment of the LOC) but also should assess the utilization of the LOCs as well as the selection, performance and development outcome of the sub-projects.
- Did the Bank ensure that the financial intermediary thoroughly monitor and report on the selection and performance of sub-projects?
- Did the Bank identify emerging problems and were its responses timely and appropriate? If not, Why?

Indicators and Evaluation Standard: Assess whether the financial institution's reporting, and the Bank staff visits were adequate to monitor developments, ensures compliance with covenants and contributes to the operation's success. Evaluate the adequacy of the monitoring of the financial institution and sub-projects' environmental performance. Review previous Annual Supervision Reports (ASRs) and compare them to the XASR findings, and explain any major discrepancies.

3. Role and Contribution:

This relates to the Bank's proactive catalytic role in fulfilling its additionality and complimentarity contribution through its intermediation in the financial markets This goes beyond good front-end work in formulating covenants and operating policies. Some evaluative questions to capture these aspects are:

- In extending the LOC and monitoring the operation, to what extent did the Bank adhere to its corporate, country, and sector strategies and business principle, play a catalytic role, and make a special contribution?
- Is additionality and complimentarity observed?
- Did the public and private sector windows of the Bank consult effectively and coordinate their intermediation in the financial markets of the client country in general and LOC financing in particular?
- Did the Bank maximize opportunities to improve corporate governance in the financial sector of client country?
- Was the Bank timely and efficient, and was the client satisfied?
- Did the Bank's involvement encourage the FI to improve corporate governance?

First this section evaluates how well the Bank fulfilled its developmental role, which is captured in 3 basic operating principles.

- ***Additionality/Special Contribution Principle***: the Bank should provide the LOC only when it can make a special contribution not offered by other investors. Highlight any pioneering or innovative dimensions, and evaluate whether the Bank's financing could have been replaced by private financing on acceptable terms if the same security had been offered.

- ***Business Principle***: the Bank should function like a business in partnership with financial intermediaries (public or private) and take the same commercial risks. Did the Bank accept the same commercial risks and earn the same returns as other donors or private participants in the same risk categories (e.g. co-financiers). If performance materially surpassed the Bank's appraisal projections, did the Bank receive any upside gain commensurate with its investment risk?

- ***Catalytic Principle***: the Bank will play its catalytic role in facilitating private investors and markets in making good investments. Did the Bank bring private investors and lenders to the financing opportunity, mobilise funding, or attract better terms for the financial intermediary than would otherwise have been the case? Did the Bank overcome the shortcomings of the FI's appraisal capabilities, either in terms of sub-project identification or providing technical assistance to improve the FI's capability in appraisal of sub-projects? Had the Bank overcome the shortcomings of the FI's awareness of environmental issues or capacity to manage them?

In addition to the three dimensions stated above to be considered as appropriate, the assessment on role and contribution should also include the following:

- ***The Bank's Timeliness, Efficiency, and Client Satisfaction***: Were the Bank's interactions with the financial intermediary timely and efficient? Comment on any issues relating to staff continuity and whether and how it has affected the operation. Note any positive or negative feedback from the client or suggestions for improvement.

- ***Relevance within the Bank's Country Strategy***: Was the Bank's support for the project relevant in addressing the country's development priorities and consistent with the Bank's current country strategy? Where the country strategy has evolved over time, comment on changes since the project's approval.

<u>Indicators and Evaluation Standard:</u> Assess the operation's genesis, the rational for the Bank's support, and the Bank's involvement in the operation (at approval and ongoing). As the basis for assessing the Bank's role and contribution, consider what would have happened if the Bank had not extended the LOC through posing the following evaluative questions:

- Would the FI (and/or sub-projects) have found alternative financing (on similar terms)?

- Would the project have been more or less successful financially and developmentally?

- Did the FI actively seek alternative financing before coming to the Bank, and what was the outcome?

In addition consider possible additional value that the Bank could have contributed to the operation's design, or done differently to improve the FI's performance and development outcomes.

<u>*Bank's Overall Effectiveness Rating*</u>

This relates to the overall effectiveness of the Bank bearing in mind that the Bank's ability to influence the quality of an operation is greatest between screening and disbursement. This rating should reflect the overall quality of the value added by the Bank, at each stage, to the operation's development outcome and to the Bank's profitability.

<u>Indicators and Evaluation Standard</u>: The overall effectiveness rating is based on the three indicators (1) appraisal, (2) monitoring, and (3) role and contribution. The Bank's effectiveness rating can be no lower than the worst indicator, and no higher than the best indicator. This synthesis rating reflects a judgment of the overall quality of the Bank's due diligence and value added at each stage of the operation to a country's development and to the Bank's profitability.