

## 08 Project evaluation and procurement





By evaluating the success of the EBRD's projects, we are able to learn valuable lessons for the future for everything from initial project selection to procurement practices.

### **Evaluation of EBRD projects**

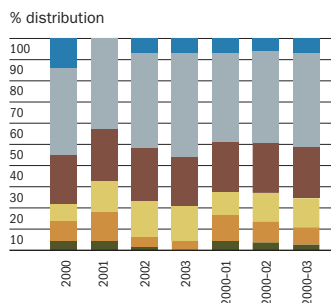
Project evaluation involves the assessment of operations once investment has been completed. This normally occurs one to two years after full disbursement has taken place. The EBRD's Project Evaluation Department (PED) seeks to establish how well the Bank's operations meet their objectives and to what extent the EBRD complies with the Bank's mandate. The lessons learned are used to improve the selection and design of future operations.

### **Transition impact and the EBRD's overall performance**

In evaluating the impact of EBRD projects on the transition process, PED looks in particular at their wider impact on the sector and on the economy as a whole. At the time of project evaluation, PED assesses transition impact using the same criteria applied by the EBRD during the selection and approval of projects. Some key indicators are promotion of privatisation, the development of skills, the encouragement of competition and support for market expansion. Other key aspects are institution-building to improve the functioning of markets, positive demonstration effects and the setting of new standards in business conduct and governance.

The chart on page 78 shows the transition impact ratings of operations evaluated in 2000-03. Of the 190 operations evaluated, 52 per cent achieved a transition impact rating of *Good* or *Excellent* and a further 26 per cent were assessed as *Satisfactory*.

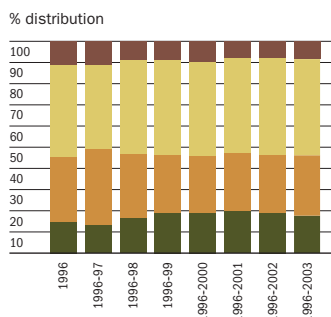
### Transition impact ratings of EBRD projects 2000-03



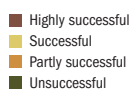
Year of evaluation



### Overall performance rating of evaluated EBRD projects 1996-2003



Year of evaluation



In 2003 a total of 20 per cent of evaluated projects were given transition impact ratings in the *Marginal-Negative* range, which is similar to previous years. This apparent lack of progress can be explained by the fact that the Bank operates in areas where commercial and financial risks are high. This affects the sustainability of some private sector operations and prevents them from realising their full transition potential. The share of projects with an *Excellent-Satisfactory* transition impact rating in 2003 was 80 per cent.

### 80 per cent of EBRD projects achieved an *Excellent-Satisfactory* transition impact rating in 2003.

The overall success of the EBRD's operations is illustrated in the chart left, which presents the Bank's overall performance ratings. This rating gives a high weighting to transition impact but also includes other performance ratings, such as the fulfilment of project objectives, financial performance, environmental performance and additionality (the Bank's ability to complement rather than replace private sources of finance). In 1996-2003, 53 per cent of evaluated projects achieved a rating of *Successful* or *Highly Successful*. This is much lower than the percentage of projects (74 per cent) that received *Excellent-Satisfactory* ratings for transition impact.

The difference between the scores on transition impact and the overall performance rating is primarily due to the impact of lower financial performance ratings, which were caused by the high-risk investment environment in the Bank's countries of operations, especially in the early and intermediate transition countries. As in previous years, it was concluded that the Bank could have mitigated the industry-specific risk more effectively and that specialist knowledge of the industry must be better used in the appraisal and structuring of projects. During 2003 six projects scored an overall rating of *Highly Successful*. Based on these findings, PED concludes that the Bank has been relatively successful in operating according to our mandate, especially in view of the difficult operating environment.

### Importance of learning from past experience

A key evaluation role is to ensure that past experience is applied to new projects. This begins with intensive consultation with banking teams within the EBRD on the lessons learned from project evaluation. Regular feedback is also offered at every stage of the approval process to provide bankers with relevant past experience. Case-based workshops are held and tailored to the specific needs of banking teams. PED also makes presentations to management and maintains a lessons-learned database for internal use. A lessons-learned database for external use is being developed.

## Examples of evaluated EBRD projects

### Successful projects

#### Agricultural commodity programme

The EBRD committed €110 million to a programme assisting agribusiness companies and traders to obtain inventory financing. Under the programme, a local bank (usually a subsidiary of an international institution) took ownership of the financed commodities and held them in a pre-approved warehouse until the commodities were sold to traders or food processors. The objectives of the programme were to establish secured working capital lending in the agribusiness sector and to facilitate the development of new warehouse receipt legislation.

The EBRD increased investment in the project twice over three years, the type of commodities financed was broadened and the licensing and monitoring elements of the programme were highlighted as positive examples for developing future warehouse receipt legislation. PED observed that although lucrative, the programme has yet to be duplicated by other financial institutions and the anticipated progress in legal transition has not materialised. However, this project has the potential to act as a model for similar transactions in the sector.

#### Water and waste-water concession project

In 2000 the EBRD invested in its first private concession project for municipal water and waste-water services. The investment will help improve maintenance of the city's pipe system, enhance customer service and promote a more efficient and easy-to-use billing system. The total amount invested, including technical cooperation, is estimated at €134 million for the first 15 years of the 25-year concession and includes a €31 million loan from the EBRD.

The Bank's evaluation noted that key to the success of this project was not including the national government as a partner in the company. The water and waste-water company only involved one shareholder – the municipality. This made the concession process simple and straightforward. Also key is the utility's ability to provide the cheapest combined water and waste-water services in the country, even after recent rate increases. Therefore, there is excellent public acceptance of the project. The concessionaire has successfully downsized, made emergency repairs and upgraded services and service quality.

One of the lessons learned was that early engagement in the project is crucial for long-term success. The use of TC funds to develop the project concept with government agencies was crucial to facilitating the successful privatisation of the utility.

## Evaluation special studies

### *Russia Small Business Fund*

PED carried out an evaluation special study of the Russia Small Business Fund (RSBF), focusing on transition impact and sustainability. The Fund commenced operations in 1995, following successful pilot projects in 1994. In 2001 the RSBF was expanded into more regional areas and the life of the programme was extended to 2010. In total the EBRD has committed around €240 million to the programme, with €140 million of additional funding contributed by G-7 countries.

The RSBF was established with two inter-related aims: to provide short and medium-term financing to micro and small enterprises, and to contribute to institution-building within the Russian financial sector by providing training and technical cooperation to lending banks.

At 31 December 2002, cumulative disbursements amounted to €870 million, for almost 116,000 loans in 116 towns and cities. This achievement is noteworthy given that the programme faced potential collapse in the wake of the 1998 financial crisis. Swift action limited losses and enabled the programme to resume growth. Two national and two regional banks remained in the programme and three more regional banks were recruited during the past two years. One consulting firm has been the sole supplier of credit advisory services since late 1998. Technical cooperation funds from RSBF contributors, the EU and other sources have enabled approximately €60 million to be spent on over 70 TC operations up to late 2002.

The special study concluded that, while the programme has achieved growth in loan numbers, volume and quality, there are still insufficient results to indicate the programme's sustainability. The study, therefore, assigned an overall assessment rating of *Partly Successful*, based on performance to date. The programme's sustainability will emerge only when the programme is completed (currently scheduled for 2010). If the programme's institution-building objectives are realised, the RSBF has the potential to achieve a *Successful to Highly Successful* performance rating.

The RSBF's transition impact rating was assessed against the programme's ability to make commercial finance available to micro and small enterprises, while at the same time contributing to policy dialogue and creating an environment conducive to small business lending. Uncertain commitment by one of the leading participants resulted in the scaling back of the programme in certain regions. Pending the outcome of discussions with this participant, the special study has assigned a transition impact rating of *Satisfactory* (realised to date).

The programme could potentially achieve a *Good to Excellent* transition impact rating, but a number of challenges must be addressed. For a *Good* TI rating, institutional obstacles to the programme will need to be removed, new creditworthy regional banks will need to be identified and recruited, and new programme features and technologies introduced. To achieve an *Excellent* TI rating, in addition to the above, partner banks will need to match funding from the programme with funds from other sources.

## Examples of evaluated EBRD projects

### *Projects with a less successful outcome*

#### **Machine parts manufacturing**

In 1994 the EBRD provided a €17 million loan to a manufacturer, part of a larger industrial group, to finance the purchase of machinery. The project was the Bank's first operation with a wholly locally owned and managed company. The borrower traded heavily with other companies within the group – most of the machinery was to be supplied by a group firm – and was therefore highly dependent on and exposed to the group's financial situation. While the Bank used contracts to manage the risk, these had no effect when the group became insolvent.

Following delays to equipment installation and loan disbursements, the borrower defaulted on its second instalment payment to the EBRD. As a result, the Bank correctly refused to make further disbursements, thereby limiting losses and preserving some transition impact.

A deficient legal regime hampered the Bank's efforts to restructure the loan. After the collapse of the group and several banks, the state took a leading role in restructuring the loans and eventually sold off the group's remnants to a new private sector owner. The EBRD spent five years trying to recover the loan and finally settled for €9 million, 68 per cent of the amount disbursed.

The Bank's experience in recovering loans within the region confirms that failings in insolvency regimes remain a critical obstacle. In country strategies, the Bank should therefore consider making bankruptcy law reform and judicial capacity a condition for projects without recourse to strong foreign sponsors.

#### **Crude oil pipeline project**

In 2000 the EBRD invested €40 million in a cross-border crude oil pipeline, part of a larger overall project involving the upgrade of a refinery. The pipeline was one of the largest foreign direct investments (FDI) in the country and was linked to the local government's attempts to significantly liberalise the petroleum sector. The objective of the overall project was to privatise the company, introduce new technologies to the sector and create greater market efficiencies and transparency through liberalisation. The project was also expected to implement high environmental standards and safety regulations.

The Bank's evaluation positively rated the technical achievements of the pipeline, based on its construction time and budget and the significant environmental benefits derived from this mode of transportation. The evaluation also highlighted, however, the failure of the Bank's policy dialogue to secure local government commitment to the undertaking. In addition, it noted the negative impact the local government's unethical business practices and complacency would have on further potential FDI.

One of the lessons learned was that, when financing only part of a larger project, the Bank cannot escape the reputation risk attached to the unsuccessful outcome of the non-Bank financed portion of the project. This is particularly true when the size of the project, relative to other FDI in a country, makes it highly visible. Another lesson is that the Bank should not over-rate its policy dialogue effectiveness when dealing with integrity issues involving government officials.

## Evaluating technical cooperation operations

PED has evaluated almost 350 consultant assignments funded through technical cooperation, involving around €100 million of funding from over 30 donors under the Bank's Technical Cooperation Funds Programme. Including TC assignments evaluated during PED's special studies, this number rises to over 900 assignments involving over €250 million of funding.

## Examples of evaluated TC operations

### Development of a commercial management system

The EBRD extended a loan to a Central Asian petroleum company to increase the yield of one of its refineries and to improve environmental and safety standards. The associated TC operations were to support project preparation and to strengthen the managerial and commercial capacities of the refinery, ahead of privatisation.

The TC components of the project were well defined technically and contributed substantially to the development and cost efficiency of the project. The outcomes of the TC operations, however, were negatively influenced by the low level capacity utilisation and the sponsor's lack of commitment to the privatisation process.

PED's evaluation found that the narrow design of the TC, which focused on technical and administrative issues, limited the transition impact of the project. The project was also restricted by the slow reform and structural rigidities of the early transition economy. Complementary TC analysis on surrounding markets and privatisation prospects could have assisted with project implementation and institution-building, and may have facilitated privatisation. A more active policy dialogue, in close coordination with other IFIs, is also necessary to reach the critical level of policy leverage to trigger sector reform.

### Refinery in Russia

Two TC operations totalling €1.2 million, funded by two donors, were undertaken to support the upgrade of a Russian refinery. The funding was used to prepare technical due diligence for various refinery modernisation projects, which could potentially become future EBRD investments. In addition, the first international audit and the introduction of international accounting standards were executed under these TC operations.

PED's evaluation rated the operations as Partly Successful, despite the excellent work done by the TC consultants and the support provided for the refinery's future upgrade. The main objective of the TC operation, to obtain EBRD investment, was however not achieved. This was attributed to the 1998 Russian crisis and also to the change in ownership: the refinery is now part of a fully integrated oil company. The evaluation also raised some doubts about whether a project finance solution for such a complex refinery upgrade project would have been achievable.

The technical studies performed were of a high quality and contributed substantially to the refinery's planning process. However, it may have been useful to conduct a scoping study first, limiting the use of TC funds prior to the EBRD investing in a project. PED also raised the issue of whether the scope of the TC operation should have been broadened to include one or two further refineries, thereby increasing the chances of a specific Bank operation materialising in this sector.

## Procurement

When any EBRD project requires goods, works or services to be procured, the Bank expects non-discrimination, fairness and transparency. Contracts awarded as part of EBRD projects must be based on these fundamental principles, which are enshrined within the Bank's Procurement Policies and Rules. The principles are designed to promote efficiency and to minimise credit risk in the implementation of Bank-financed projects. The EBRD expects all participants in the procurement process to observe the highest standards of ethics and conduct.

The EBRD treats procurement in public and private sector projects differently. A private sector client can apply its own procurement practices provided the EBRD is satisfied that these practices are commercially sound and that fair market prices are obtained. The client must also ensure that conflicts of interest are avoided and that the best interests of the company are preserved. Prescriptive rules apply to procurement in public sector operations. The EBRD asks clients to use structured, transparent procedures that maximise competition and fair treatment for all participants. The Bank reviews and monitors procurement closely at all key stages of the process.

During 2003 the EBRD continued working closely with other multilateral development banks to harmonise public sector procurement documentation. In particular, the Bank published a draft paper on harmonising documents for the purchase of goods. Significant progress was made in drafting documents for prequalification for civil works and for requests for proposals regarding consultancy services. It is hoped that these will be implemented in 2004. For the civil works document, consultation with the private sector has begun.

During the year the EBRD worked closely with procurement agencies in the EU accession countries to ensure that procurement issues are addressed satisfactorily – in particular, in the case of co-financing with the European Community. Furthermore, in collaboration with the World Bank, the EBRD participated in a review of Tajikistan's procurement procedures.

The EBRD continued to provide professional services throughout 2003. Services included procurement seminars and workshops for our clients and their agencies in our countries of operations in 2003 as well as seminars/workshops for the business community.

The EBRD financed a total of 181 public sector contracts in 2003, with a total value of €721 million. This compares with 174 contracts totalling €505 million in 2002. The total value of contracts signed using open tendering procedures in 2003 amounted to €679 million, or 94 per cent of all contracts signed by value. Contracts in the transport sector accounted for more than 66 per cent of all public sector contracts signed in 2003. To improve the effectiveness of EBRD-financed procurement, the Bank makes available a range of documents, and regularly publishes information about upcoming contracts on the Procurement Opportunities section of the EBRD web site: [www.ebrd.com/oppor/procure](http://www.ebrd.com/oppor/procure). This can be accessed at no cost to the business community.