

**PROGRESS REPORT**  
**ON**  
**MANAGING FOR DEVELOPMENT RESULTS AT THE**  
**European Bank for Reconstruction**

**Prepared for the**  
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**February 2004**

**Managing for Development Results:  
EBRD Progress Report  
January 2004**

**A. Overall approach**

The EBRD approach to managing for results is based on three pillars: (i) measurement and monitoring of the transition impact of its projects; (ii) measurement and monitoring of the project financial results and (iii) establishment of operational priorities through country and sectors agreed with countries of operations and approved by the Bank's Board of Directors. While the measurement and monitoring of the latter has been in place since the inception of the Bank, transition results initiatives have increased since the last MDB roundtable of March 2002. This progress report focuses on those recent initiatives (for more detail see section B below).

In addition to project-based results management, the EBRD uses results-based management for its own institutional performance and budgeting, with a focus on transition impact and financial indicators. These indicators are captured in an institutional scorecard which contains measurable quantitative benchmarks for (a) the quality of new business (i.e., the transition impact rating assigned to new projects); (b) operational performance (e.g., portfolio growth, disbursements and impaired assets); (c) financial performance (operating profit); and (d) organisational performance (an index of productivity).

Overall, the EBRD has already implemented management for results at the institution level, through its project design, selection and conditionality, and through internal management and corporate governance measures. Both the transition impact and financial, operational and organisational performance objectives are reviewed annually by the Board in the Bank's Medium Term Strategy Update and its Strategic Portfolio Review and these reviews inform the Bank's annual budgeting process. Annual performance appraisals of teams and individuals are based on performance indicators in line with those used in the institutional scorecard.

To monitor progress at the country level, the EBRD publishes its annual *Transition Report*, which contains indicators that track the annual progress in transition and market-oriented reforms in the 27 countries of the region where the EBRD operates since the beginning of transition (see the latest report: *Transition Report 2003- Integration and Regional Co-operation*). The operational implications of this analysis are reflected in individual and country strategies

Individual EBRD country strategies are result-based as they are evaluated against the performance of the country portfolio of projects and against the sector reform and transition challenges tracked by the *Transition Report* and sector strategies. The EBRD continues to build management and evaluation-related institutional capacity in project agencies on a project-by-project basis.

### ***Institutional Context***

Management for results at the EBRD is done within the strategic framework provided by its Medium Term Strategy (MTS) Update 2004-2007 approved by its Board in July 2003. The MTS Update reflects the operational priorities of the Bank for the medium term in order to move transition forward and achieve results in the Bank's countries of operation.

Specific medium term priorities include promotion of a sound business environment and stronger institutions, development of small and medium-sized enterprises, pursuit of commercial approaches to infrastructure development, improved corporate governance through increased number of equity investments, development of sound financial sectors, and a selective approach to the restructuring of viable large enterprises.

The implementation of the Bank's medium-term priorities is done through a strategic approach to portfolio management. The portfolio management approach ensures that: (a) the EBRD portfolio of loans, investments and guarantees, as a whole, reflects the transition objectives and operational priorities of the Bank; (b) the portfolio is balanced across countries, financial products and risk categories to achieve transition impact while safeguarding financial viability; and (c) all projects in the portfolio are monitored and managed throughout the project cycle.

### ***Translating Vision into Action***

The most important results-based management initiative developed at the EBRD since March 2002 is the introduction of a Transition Impact Monitoring System (TIMS) (see box below). TIMS provides semi-annual reviews of the transition results for all projects in the portfolio, in the same way as all projects are reviewed semi-annually for financial results. These transition impact results are monitored continuously until the EBRD financing is fully repaid. An enhanced dialogue on transition impact rating among the Office of the Chief Economist, Project Evaluation Department and Banking has led to an enhanced lessons-learned dissemination. The Bank's Board of Directors has been informed of these activities through a special Board workshop. Transition and financial projects results are now continuously monitored ex-ante, during implementation and ex-post – with feedback provided throughout the institution. Performance is also continuously reported to the Board.

In addition to the TIMS, the EBRD has established and expanded *PED.net* with evaluation reports accessible to all staff involved in operation processes; analysis of ex-ante and ex-post transition rating outcomes to identify patterns of experience; Evaluation Policy Review under preparation to harmonise evaluation practices and processes and applying ECG's Good Standard Practices

### **Box 1: Transition Impact Monitoring System**

The EBRD has an explicit mandate to foster transition to an open market economy and multiparty democracy. The contribution a project financed by the Bank makes to the transformation of a company, sector, or economy, from central planning to well-functioning market structures, behaviour or institutions is known as the “transition impact” of the project.

The EBRD has since January 2003 introduced a management information system to monitor and assess periodically the contribution of its portfolio of loans and investments to transition in the countries of operation (TIMS). The objectives of TIMS are three:

- 1) improve the structure of projects by fine-tuning the balance between transition targets, project covenants, and risk-mitigating conditions;
- 2) address transition impact problems consistently, as soon as they arise, to facilitate corrective action and the transition-related dialogue between the Bank and its clients; and
- 3) provide a regular assessment of the transition impact of Bank projects both on an individual project basis, but also on the basis of the potential impact on sectors and countries.

TIMS will facilitate a portfolio approach to monitoring the way the Bank meets its transition mandate by assessing progress based on the transition impact potential of projects both individually and through their joint impact on sectors and countries. Regular monitoring is done on a project basis. Progress reporting is done both on a project and on a portfolio basis to allow a comparison of the transition impact potential of the portfolio against other sources of project risks and returns, and other sector and country dimensions.

### ***Communication steps recently undertaken***

The EBRD approved in 2003 an updated Public Information Policy with an enhanced Country Strategy process (improving retrospective element, applying lessons learned and cooperation with other IFIs). All board papers for projects and country strategies have long had specific sections on financial results and transition impact. For projects, specific ratings for credit risk and transition impact are disclosed up front in the summary fact sheet.

To enhance public consultation and improve dissemination, country strategies are now available on the EBRD website ([www.ebrd.com](http://www.ebrd.com)) for comments and public access. The Annual Evaluation Operations Report (AEOR) is also now published on the EBRD website for wider dissemination of evaluation results and methodologies. The AEOR is a progress report that focuses on the financial and transition impact results of the Bank's projects that have been subject to independent evaluation.

Communications with staff are organized through internet knowledge sharing, interactive web database, slide show presentation and training. Overall, human resource management, training and IT have been developed to deliver results: they are not considered currently to require significant changes other than fine tuning.

Communications with Clients is done on a case-by-case basis for each project, or in case of Governments, through ongoing policy dialogue.

## **B. Recent achievements and assessment of progress**

### ***Key achievements and lessons learned***

The EBRD works on the basis of country and sector strategies. Investment projects, including associated technical co-operation components and policy dialogue, are EBRD's principal instruments to achieve transition to markets. EBRD wholesale financial instruments include trade-related facilities (principally the *Trade Facilitation Programme*), which recognises trade as an engine for development, measured in volume of trade and number of trade transactions.

The EBRD has put a premium on collaboration with development partners, in particular other IFIs at country level for policy dialogue and co-financing of projects and investments.

### ***EBRD country strategies***

In addition to the progress made to the quality and public access of the Country Strategies (see section A), the Project Evaluation Department (PED) of the EBRD has started a country strategy evaluation based on an *Approach Paper on Country Strategy Evaluation* presented to the Board in September 2003. The purpose of evaluating country strategies dovetails with the general objective of managing for results. The focus of the country strategy evaluation is to assess the identification of transition challenges in individual countries over time and how the Bank has responded to them. The transition challenges depend on the business environment of a country. The business environment also influences the risks to transition. The country strategy is evaluated by comparing the stated transition objectives and the results achieved on the ground in terms of projects, technical co-operation and policy dialogue.

### ***Scaling up Work on Measuring, Monitoring, and Managing for Results***

As described above, internal EBRD management and projects approval are based among other criteria on transition results. The Bank evaluation systems (see box above on TIMS) have been upgraded to focus on results to better assess the individual contribution of projects to transition. The lessons learned from transition impact monitoring are used in the design of the new projects. Detailed description of the methodology of measuring/rating transition impact ex-ante and ex-post is the subject of continuous attention of management and the Board, including transition impact assessment methodology and portfolio development initiatives.

On methodology, management presented the Board with an update in December 2003 regarding the implementation of the transition impact ratings (potential and risk) of projects. This update included a review of the transition impact rating methodology applied ex-ante by the Office of the Chief Economist; an assessment of the links between project selection, project design and transition impact ratings; the transition impact evaluation methodology applied ex-post by the Project Evaluation Department; and a comparative analysis of the ex-ante and ex-post transition impact ratings in the portfolio.

On portfolio development, the Bank has undertaken an independent review of its approach in early transition countries, notably the CIS-7 countries to assess relative Bank performance and explore financing instruments to enhance Bank activity and technical assistance in those countries. Preliminary conclusions point at the target of broadening the investor base, adapt financing instruments to the needs of the growing local enterprises, enhance SME development, and achieve demonstration impact through regional co-operation projects. The independent review will be followed by an Action Plan with concrete objectives, which EBRD management will present to the Board for approval in the first half of 2004.

#### ***Support to Strengthen Country Capacity for Measuring, Monitoring, and Managing for Results***

In coordination with other IFIs regarding a division of labour, the EBRD is not involved in these subjects at the overall country level. However, with each of its clients, including public authorities, the EBRD projects require improvement of capacity to measure, monitor and manage for results through covenants of corporate governance, IAS auditing and reporting, and project design and implementation monitoring. More than two-thirds of investment projects and all Technical Co-operation initiatives are evaluated after completion.

#### ***Partnership on Managing for Results***

The EBRD has actively participated to the Harmonization effort. The EBRD continues close collaboration with ECG members, bilateral and multilateral donors, contributing towards benchmarking exercises in respect of Good Practice Standards in respect of private and public sector evaluation. For example, the UK Government, acting through the Department for International Development (“the DFID”) has provided a grant to the EBRD to support research in areas in which the Bank is likely to be confronted by *social policy issues* through its projects, and to facilitate the development of appropriate responses within EBRD’s mandate. In addition, the Japanese government, acting through the Japan Europe Cooperation Fund, has provided a grant to the EBRD to support research in monitoring progress in transition at the country level and evaluating its impact on private sector development.