

# Annual Evaluation Overview: INDEPENDENT EX-POST EVALUATIONS

BSTDB, INDEPENDENT EVALUATION OFFICE, JUNE 2016

## A. Introduction

According to the BSTDB's Evaluation Policy, the Independent Evaluation Office of the Bank presents this annual evaluation overview to highlight key findings and trends from the conducted post-evaluations since 2000.

This overview and other evaluation products ensure accountability and quality management improvement of the Bank's performance, based on a rigorous, internationally harmonized independent evaluation of the BSTDB operations. Each annual evaluation overview is presented to the Management, the Board of Directors and the Board of Governors to highlight key findings and trends in operational and institutional performance.

The evaluation overviews aggregate and compare the findings of the conducted post-evaluations on an annual cumulative basis. They produce an overall picture of performance and reveal important trends and causal links. These reports do not contain commercially sensitive / operation-specific information and, therefore, represent the main vehicle for broader disclosure and accountability on the Bank's overall performance.

The annual evaluation overview presents a synthesis of the findings of the Bank's evaluated operations over the past 15 years, focusing on BSTDB's mandate fulfillment and overall performance. It preserves the corporate memory of the Bank by distilling the essence of "Lessons Learned" from the Bank's evaluations in a diversity of operations.

## B. Independent Evaluation: Methodology and Adherence to Highest IFI Standards

The BSTDB Post Evaluation Policy commits the independent evaluation to Good Practice Standards on Evaluation, as maintained by the Evaluation Cooperation Group (ECG) of the IFIs. These standards, *inter alia*, ensure the organizational and behavioral independence of the evaluation function, safeguarding the important accountability role of the evaluation to the Boards of Directors/Governors. The Evaluation Office officially became an observer at ECG in 2010 when it started to maintain pro-active role in enhancing and applying the respective IFI-specific standards in independent evaluation. In 2012 and 2013, the ECG, represented by IFC and EIB, performed a comprehensive peer review on the BSTDB's Evaluation Office, assessing its methodology, rigor and overall practice against the respective IFI standards. The review concluded that BSTDB meets the key standards on evaluation independence and made a number of enhancement recommendations that were implemented by BSTDB in 2013. Subsequently, in April 2014 the Bank's Independent Evaluation Office was officially admitted as a full member of ECG, acknowledging its commitment to highest IFI standards in evaluation.

The current evaluation overview provides an overall picture of BSTDB performance over the period of 2000-2015, with a highlight of the latest trends and developments (2011-2015), based on the analysis of 103 evaluations of completed operations and a dozen of related evaluation studies.

The analysis covers three five-year periods, to smooth-out annual fluctuations, as required by the applicable evaluation methodology. The 2011-2015 data is compared with the target of reaching 70% positively performing sample of evaluated operations set in the Bank's previous and current Medium-Term Business Plans.

The IFI-harmonized evaluation methodology uses 4 ratings for ranking performance of operations, 2 positive and 2 negative: Excellent, Satisfactory, Partially Unsatisfactory, Unsatisfactory. These ratings apply to each of the 5 evaluation criteria:

- **RELEVANCE:** Consistency of operation objectives with the BSTDB mandate;
- **EFFECTIVENESS:** Extent to which objectives are achieved;
- **EFFICIENCY:** Extent to which benefits are commensurate with inputs;
- **SUSTAINABILITY:** Likelihood that results will be maintained;
- **INSTITUTIONAL IMPACT:** Covers improvements in norms and practices.

The ratings on those 5 criteria form the overall rating, a single measure of overall operation’s performance.

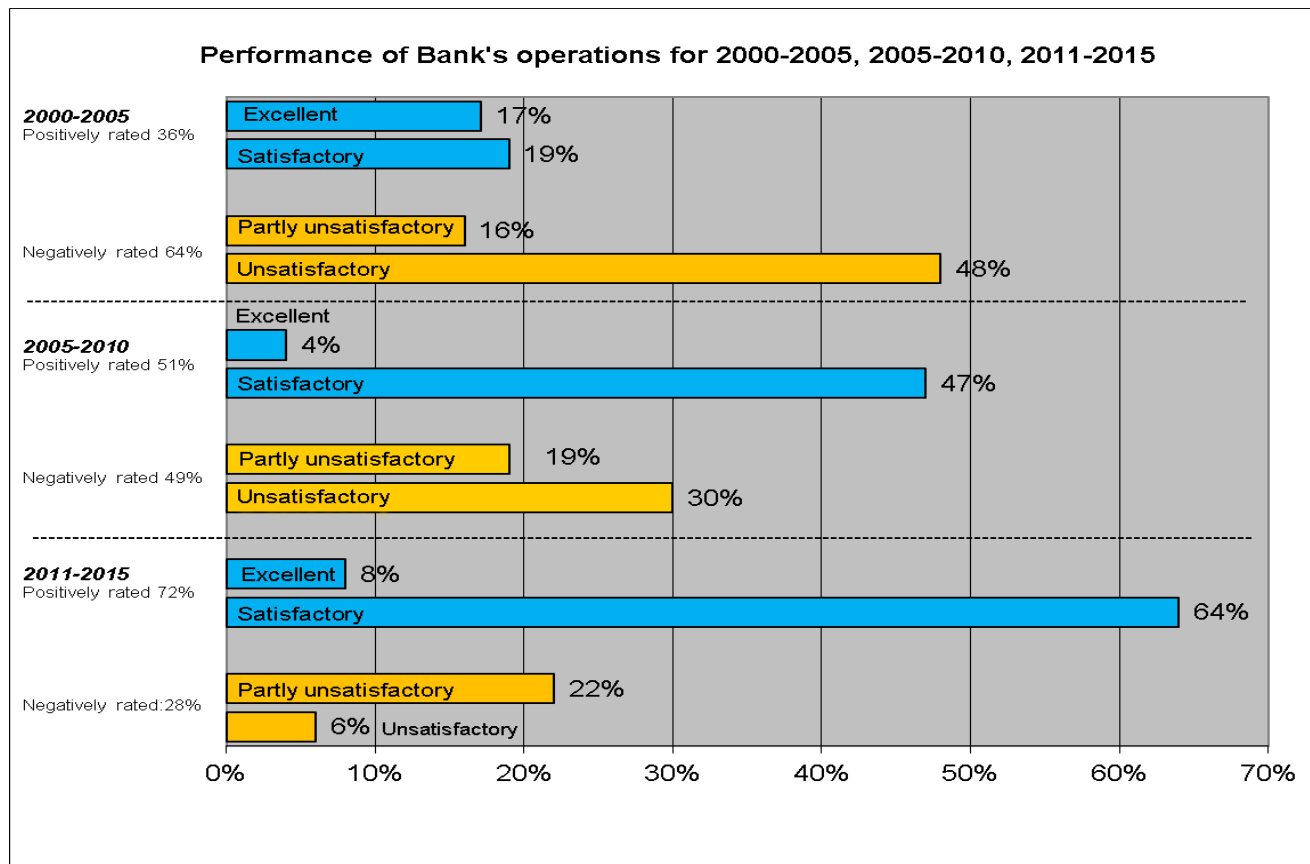
## C. Performance of Evaluated Operations

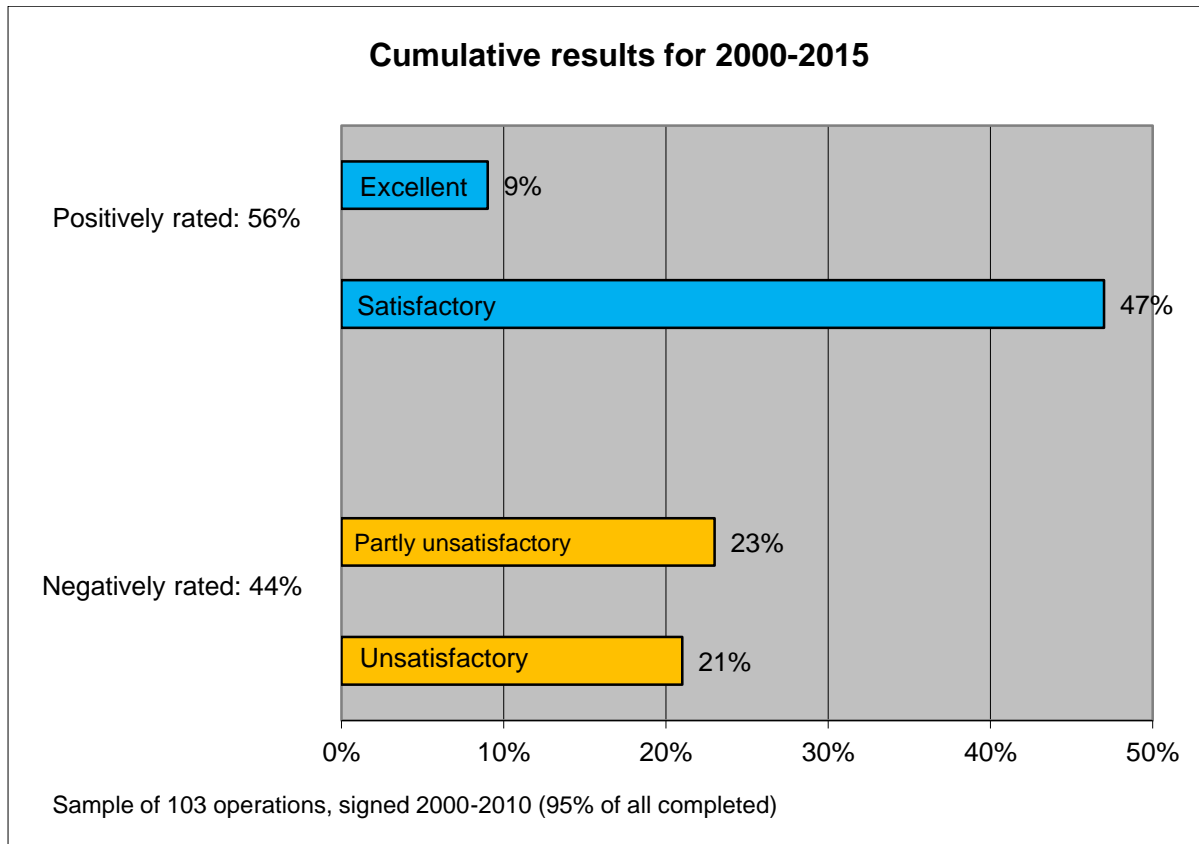
### C.1 Overall Performance

BSTDB has a positively rated (Excellent or Satisfactory) overall performance in 56% of all evaluated operations (2000-2015). In the latest aggregate period (2011-2015) BSTDB’s positively rated operations reached 72%, the highest level of all periods. This denotes a substantial positive trend (upwards from 36% in 2000-2005 and 51% in 2005-2010), indicating an achievement of the 70% target set in the Bank’s Medium-Term Business Plan.

On the upper end of the ratings, the share of “Excellent” ratings moved from 17% in 2000-2004, to 4% in 2005-2010 and 8% in 2011-2015.

The share of BSTDB operations rated negatively (Partly Unsatisfactory or Unsatisfactory), indicates improvement, as the lowest-rated share (Unsatisfactory) decreased from 48% in 2000-2005 to just 6% in 2011-2015.



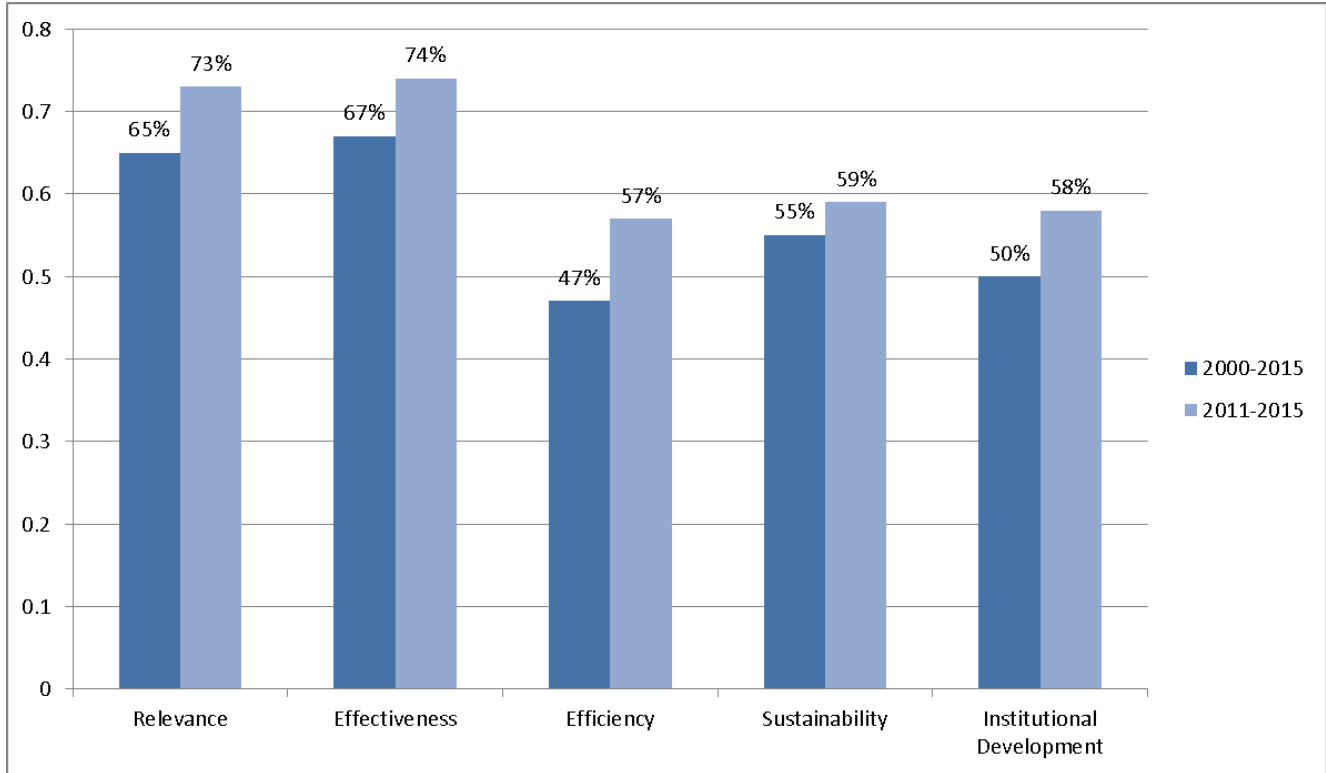


## C.2 Relevance, Effectiveness, Efficiency, Sustainability and Institutional Development

A more analytical review of the evaluation ratings under each of the five criteria (*Relevance, Effectiveness, Efficiency, Sustainability* and *Institutional Development*) is helpful to understand the broader picture, as well as where the Bank needs more efforts, to enhance overall performance. An outline of the share of positively rated operations, out of all 103 evaluated operations since 2000, is presented below:

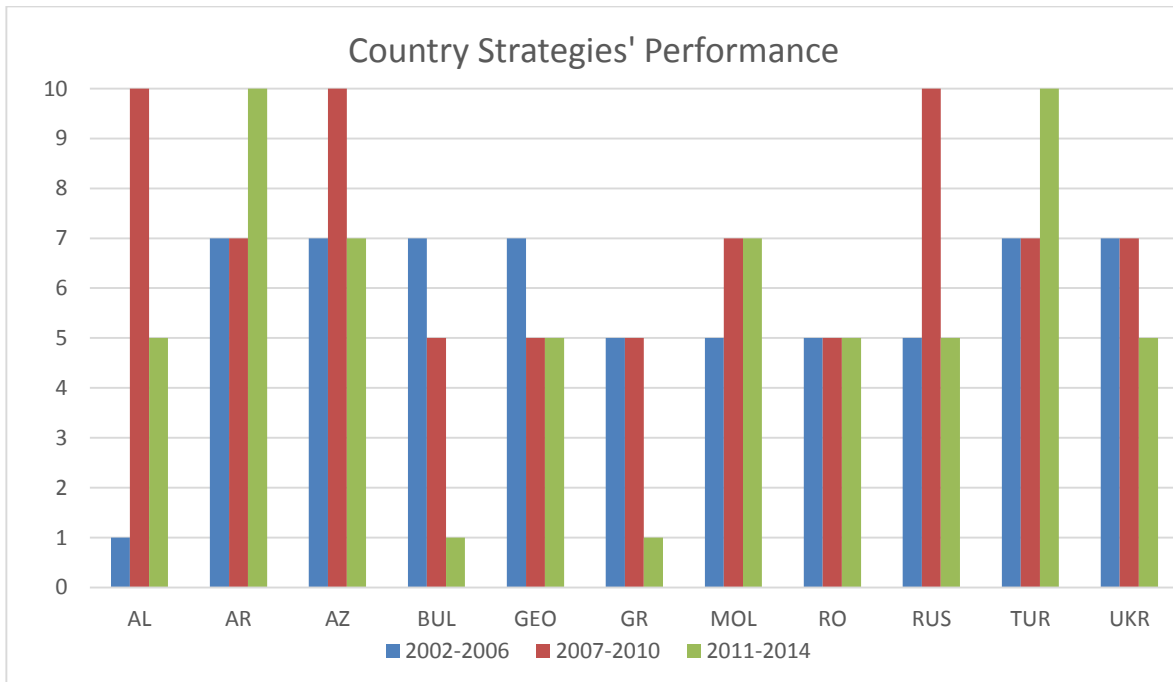
- Relevance of operations – 65% (2000-2015) and 73% (2011-2015) positively rated
- Effectiveness – 67% (2000-2015) and 74% (2011-2015) positively rated
- Efficiency – 46% (2000-2015) and 57% (2011-2015) positively rated
- Sustainability – 55% (2000-2015) and 59% (2011-2015) positively rated
- Institutional Development – 50% (2000-2015) and 58% (2011-2015) positively rated

PERFORMANCE DETAILS: 2000-2015



#### D. Performance of Completed Country Strategies

While evaluations at the project level demonstrate a trend of improvement over the reviewed periods, the positive performance ratings (Excellent or Satisfactory) of the Country Strategies declined from 64% in 2007-2010 to 36% in 2011-2014. This challenge requires better team structuring/effort looking beyond the project level, with a particular attention to implementation and monitoring of multiannual Country targets.



*Note: 1 – Unsatisfactory; 5 – Partly Unsatisfactory; 7 - Satisfactory; 10 - Excellent*

## E. Independent validation of self-evaluation reports

The Bank's Operation Teams prepare self-evaluation reports on each operation (Operation Completion Reports - OCRs). The Independent Evaluation Office's evaluation normally differs in performance ratings relative to the ratings assigned by the operation teams in the respective OCRs. The divergence between the OCRs and the independent evaluations, expressed in binary terms (i.e. reflecting only the cases where the independent evaluation resulted in a change from positively rated self-evaluation to negatively rated<sup>1</sup>, or vice-versa) is as follows:

- The overall OCR performance ratings issued during 2011-2015 (42 operations) were validated by the Evaluation Office without change in 64% of the cases.
- For the same period, the OCR ratings that were upgraded and downgraded by the independent evaluation were 2% and 34% of the total, respectively.

## F. Benchmarking with peer IFIs

All aspects of evaluated performance are subject to rigorous peer IFI benchmarking since 2004. These comparisons are conducted regularly on the basis of data and time aggregation, to ensure validity and overall consistency.

Since 2008 BSTDB maintains its performance generally in line with the comparable IFIs. The dramatic increase in the share of well-performing operations from 36% in 2005 to 72% in 2015 came as a result of proactive measures to analyze and mitigate shortfalls, such as volume-dominated incentives ("approval culture" - focusing on volumes of new operations with less effort on the quality and sustainability), as well as related waves of premature cancellations.

The last 5-year data place the Bank within the average portfolio growth range among IFIs. It is noteworthy that Bank's purpose related exposure (investments in mandate-related instruments, e.g. loans, equity and guarantees in the Bank's member countries, 92%) is highest among all IFIs and the growth of this exposure is among the highest as well. This is explained by the relatively high capital adequacy, combined with the Bank's approach to invest mostly in purpose lending instruments. As the purpose related exposure and its growth are proxy indicators for mandate relevance, the high ranking of BSTDB deserves acknowledgement, as it implies that almost all of the shareholder's resources are invested in mandate-related activities. The relatively conservative approach and lowest leverage contribute to the Bank's top 10% rank in terms of capital adequacy.

During recent years, the portfolio structure of the Bank with reference to other IFIs and the Bank's own targets revealed a relatively high share of financial sector operations. However, already in 2015 the Bank was able to reduce this share to 43.6%, well below the threshold levels of 49% and 45%, set by the Bank's Mid Term Strategy for end of 2015 and 2018 respectively.

The assessment of the Bank's liquidity indicates an assets/debt ratio among the best and a short-term/gross debt ratio – at the lower end of the spectrum. The former ratio reflects the very high capital adequacy, addressed above as a limitation towards the goal of mobilizing external resources. The later ratio, on the other hand, implies a relatively high share of short-term debt, presenting certain maturity mismatch vis-à-vis the longer-term lending portfolio.

The Bank's income/equity and Income/assets ratios are close/above IFIs' average. BSTDB also demonstrates a remarkably low degree of earnings volatility, well below IFI average figures. This reflects a conservative approach, a high degree of financial resilience, even in times of global turbulence.

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<sup>1</sup> Positive: Excellent or satisfactory; Negative: Partly Unsatisfactory or Unsatisfactory

## G. Follow-up of evaluation recommendations

To date, all evaluation recommendations accepted by the Management, Audit Committee and the Board of Directors have been either implemented or are under implementation. There are no outstanding issues.

## H. Conclusions

### H.1 Overall performance in line with the BSTDB Medium-Term Business Plan

There is a clear upward trend, with latest results (72%) being in line with the target of 70% positively rated operations set in the Bank's Medium-Term Business Plan.

### H.2. Performance of Country Strategies requires further attention

While operation performance increased over the years, the implementation of the latest completed Country Strategies (2011-2014) has declined (from 64% to 34% positive evaluation ratings), requiring particular attention. The independent evaluation recommended on several occasions a closer monitoring and communication of Country targets, in order to ensure better and more balanced results in next periods. It also acknowledged that recent efforts have already offset the negative trend of the last programming period: during 2015, the first year of the 2015-2018 Country Strategies, the respective annual targets were reached in 8 of the 11 Countries (73%).

### H.3. Incentive-based enhancement of self-evaluation quality

The quality of operational self-evaluations varies widely, exhibiting inadequate realism standards. Various measures were already undertaken by the Evaluation Office and Management in the context of the Banks Performance Management Policy and have contributed to recent improvements. This process should be further assessed and strengthened.

### H.4. Comparisons with IFI peers

Since 2008 BSTDB maintains its performance generally in line with the comparable IFIs, indicating certain advantages and lags. The Bank will continue to perform peer benchmarking, both generally and with a particular focus, in order to stay abreast of good practice and latest developments in development finance.