

Annual Evaluation Overview: INDEPENDENT EX-POST EVALUATIONS

BSTDB, INDEPENDENT EVALUATION OFFICE, JUNE 2017

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 2001.

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 2001-2016, with a highlight of the latest trends and developments (2012-2016), based on the analysis of 112 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 2012-2016 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.

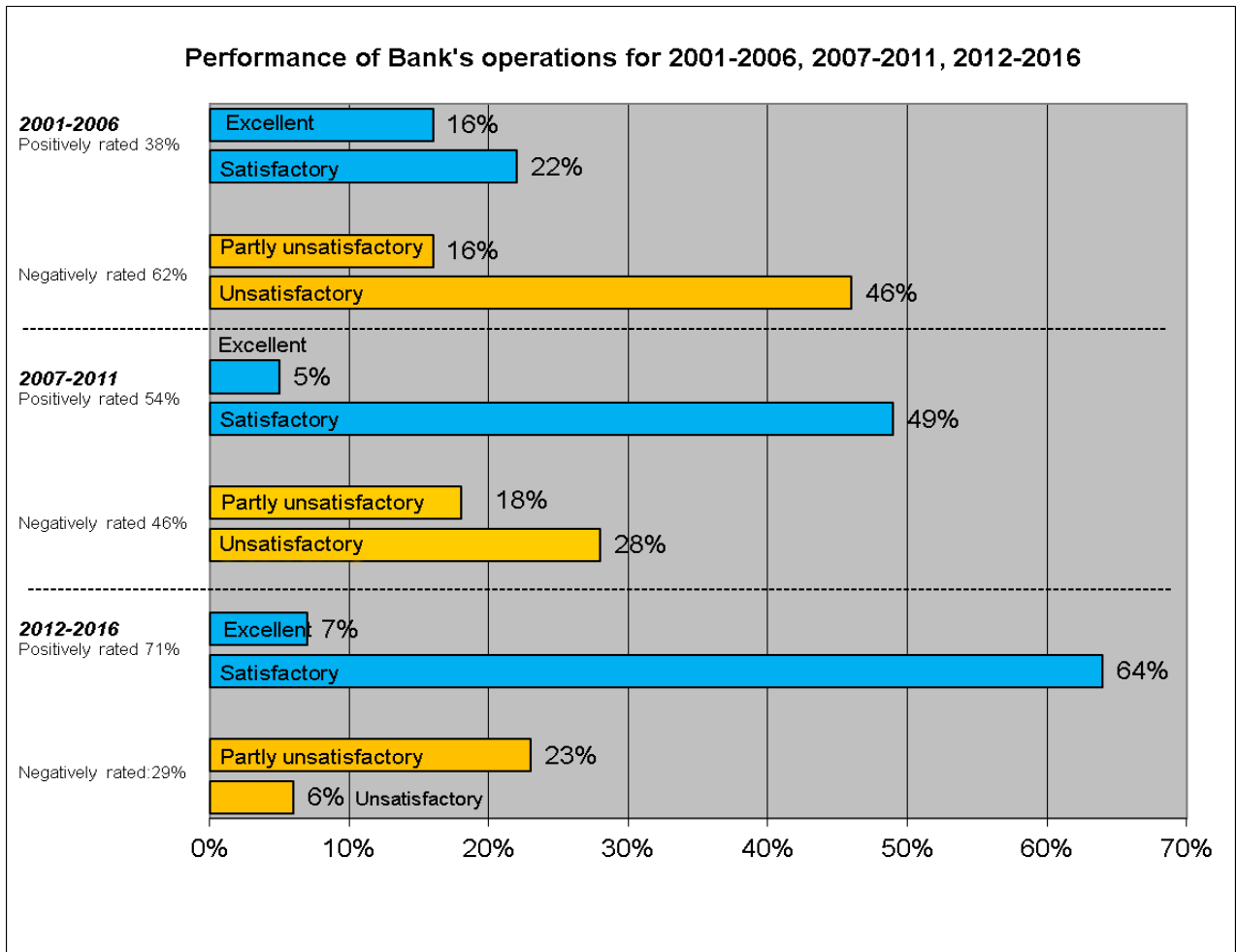
C. Performance of Evaluated Operations

C.1 Overall Performance

In the latest aggregate period (2012-2016) BSTDB's positively rated operations represent 71% - above the target of 70%, set by the Bank's Medium Term Strategy 2015-2018. This denotes a positive trend compared to previous 5-year periods (upwards from 38% in 2001-2006 and 54% in 2007-2011).

On the upper end of the ratings, the share of "Excellent" ratings moved from 16% in 2001-2006, to 7% in 2012-2016.

The share of BSTDB operations rated negatively (Partly Unsatisfactory or Unsatisfactory), indicates improvement, as the lowest-rated share (Unsatisfactory) decreased from 46% in 2001-2006 to 6% in 2012-2016.

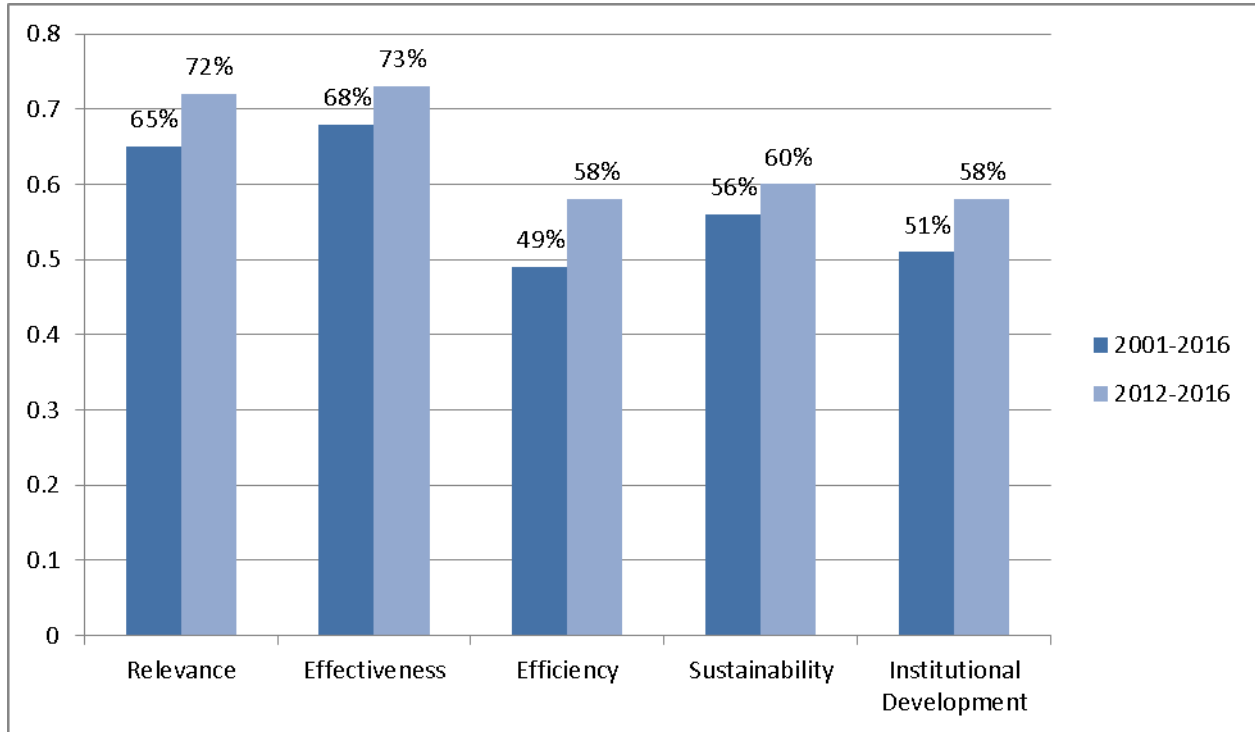


C.2 Relevance, Effectiveness, Efficiency, Sustainability and Institutional Development

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 112 evaluated operations since 2001, is presented below:

- Relevance of operations – 65% (2001-2016) and 72% (2012-2016) positively rated
- Effectiveness – 68% (2001-2016) and 73% (2012-2016) positively rated
- Efficiency – 49% (2001-2016) and 58% (2012-2016) positively rated
- Sustainability – 56% (2001-2016) and 60% (2012-2016) positively rated
- Institutional Development – 51% (2001-2016) and 58% (2012-2016) positively rated

PERFORMANCE DETAILS: 2001-2016

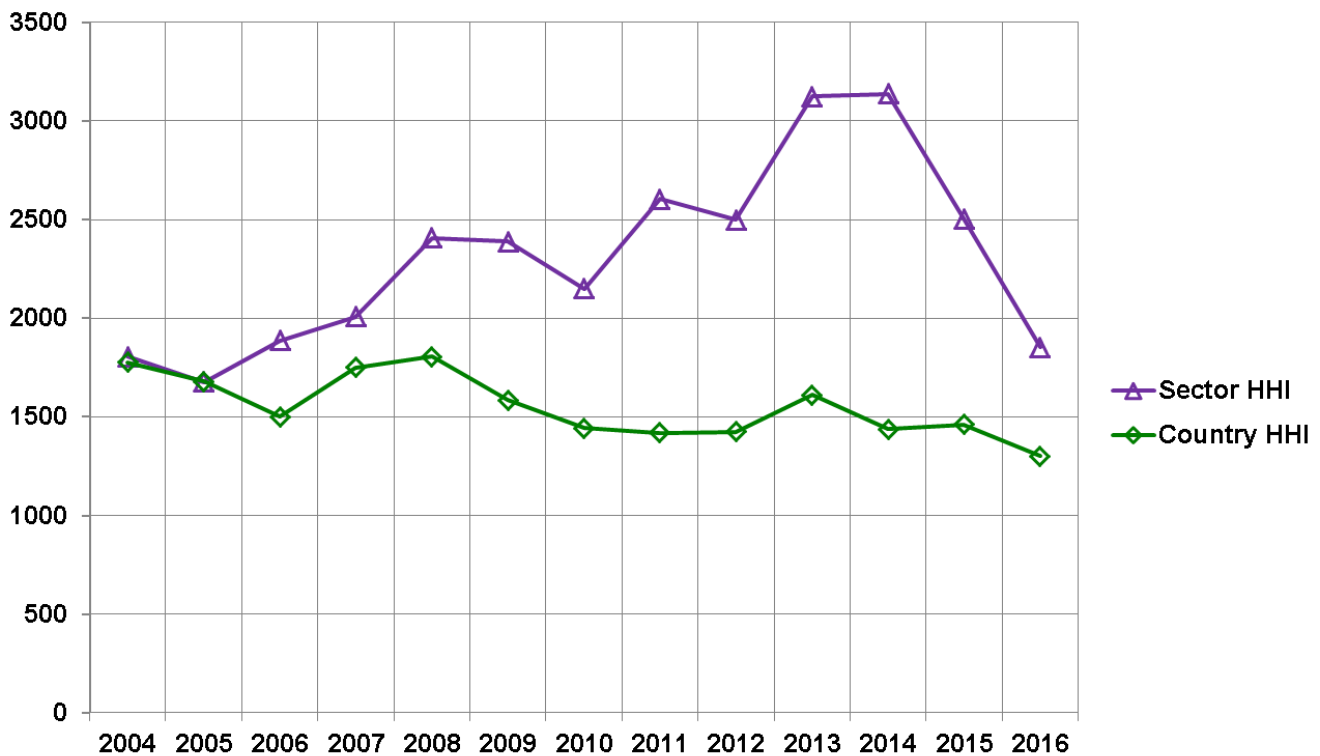


D. Key Performance Indicators

Since 2016, the Independent Evaluation Office oversees the key Performance Indicators (KPIs), approved by the Board of Governors as part of the Bank's Medium Term Strategy and Business Plan 2015-2018. While there are 8 KPIs, the overview has a focus on the following two as they are directly related to the evaluation of the Bank's mandate implementation:

- Mandate fulfillment** – 70% or higher share of ex-post evaluated operations to rate positive on overall performance (combined *Relevance; Effectiveness; Efficiency; Sustainability and; Institutional Development*). Result: achieved (71%)
- Portfolio Concentration** – Geographic (Country) Herfindahl-Hirschman Index should be 1400 or lower (HHI, a commonly accepted measure of market concentration, calculated by squaring the portfolio share in each country, and then summing the resulting numbers: BSTDB uses sector HHI and Country HHI to measure sector and geographical concentration respectively), as well as a share of financial sector operations below 45%.
Result: achieved - Country HHI 1300; financial sector share of below 35% (34.7%); while there is no specific target on sector HHI, the graph below demonstrates a substantial diversification, representing the lowest concentration level ever attained by the Bank, regarding both sector and geographic HHI.

DYNAMICS OF PORTFOLIO CONCENTRATION: 2004-2016



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 rated¹, or vice-versa) is as follows:

- The overall OCR performance ratings issued during 2012-2016 were validated by the Evaluation Office without change in 66% of the cases.
- For the same period, the OCR ratings that were upgraded and downgraded by the independent evaluation were 1% and 33% 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.

¹ Positive: Excellent or satisfactory; Negative: Partly Unsatisfactory or Unsatisfactory

Since 2008 BSTDB maintains its performance generally in line with the comparable IFIs. The dramatic increase in the share of well-performing operations from 38% in 2006 to 71% in 2016 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/performance range among IFIs.

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, in 2015 and 2016 the Bank was able to reduce this share to 35%, well below the threshold level of 45%, set by the Bank’s Medium Term Strategy 2015-2018.

E. 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.

F. Conclusion

There is a consistent upward trend, with latest results (71%) being in line with the target of 70% positively rated operations set in the Bank’s Medium-Term Business Plan. 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.