

**AFRICAN DEVELOPMENT BANK**



**MANUAL**

**MONITORING AND EVALUATION GUIDELINES  
PRIVATE SECTOR PROJECTS FUNDED BY AfDB**

**DRAFT REPORT**

**T&B Consult**  
December 2002

## TABLE OF CONTENTS

	<u>Page N°.</u>
<b>List of Abbreviations and Acronyms</b>	<b>i</b>
<b>Definition of Key Concepts</b>	<b>ii</b>
<b>Executive Summary</b>	<b>iii</b>
<b>1. BACKGROUND</b>	<b>1</b>
1.1 <i>Private Sector Operations in Africa</i>	<i>1</i>
1.2 <i>AfDB Vision for Private Sector Development</i>	<i>2</i>
1.3 <i>The Private Sector Window of AfDB</i>	<i>3</i>
1.4 <i>The Two-pronged Objective of the Manual</i>	<i>4</i>
<b>2. GUIDELINES FOR MONITORING AND SELF-EVALUATION</b>	<b>8</b>
2.1 <i>Introduction</i>	<i>8</i>
2.2 <i>Objectives and Scope of Monitoring and Self-Evaluation</i>	<i>87</i>
2.3 <i>Evaluation Dimensions and Rating Standards</i>	<i>9</i>
2.4 <i>Outline of Monitoring</i>	<i>10</i>
2.5 <i>Outline of Self-Evaluation</i>	<i>14</i>
2.6 <i>Processing, Reporting and Distribution Procedures</i>	<i>18</i>
<b>3. GUIDELINES FOR INDEPENDENT EVALUATION</b>	<b>20</b>
3.1 <i>Introduction</i>	<i>20</i>
3.2 <i>Objectives and Scope for Independent Evaluation</i>	<i>20</i>
3.3 <i>Review of Self Evaluation Report</i>	<i>20</i>
3.4 <i>Evaluation Dimensions and Rating Standards</i>	<i>21</i>
3.5 <i>Outline of SER Evaluation Note</i>	<i>21</i>
3.6 <i>Outline of Annual Private Sector Portfolio Evaluation Report</i>	<i>22</i>
3.7 <i>Processing, Reporting and Distribution Procedures</i>	<i>23</i>

### ANNEXES

### N° of Pages

<b>ANNEX I</b>	<b>Evaluation Dimensions, Indicators and Rating Standards for Self-Evaluation. Private Sector Non-Financial Projects</b>	<b>10</b>
<b>ANNEX II</b>	<b>Formats for Client Reporting</b>	<b>3</b>
<b>ANNEX III</b>	<b>Format for Annual Supervision Report</b>	<b>8</b>
<b>ANNEX IV</b>	<b>Format for Self-Evaluation Report</b>	<b>7</b>
<b>ANNEX V</b>	<b>Format for SER Evaluation Note</b>	<b>2</b>

## **ABBREVIATIONS AND ACRONYMS**

AfDB	:	African Development Bank
APSPER	:	Annual Private Sector Portfolio Evaluation Report
ASR	:	Annual Supervision Report
ECG	:	Evaluation Co-operation Group
GSP	:	Good Practice Standards for Evaluation of Private Investment Operations
IFC	:	International Finance Corporation
MDB	:	Multilateral Development Banks
NAP	:	Net Approval Population
OPEV	:	Operations Evaluation Department
OPSD	:	Operations Private Sector Department
PCR	:	Project Completion Report
RMC	:	Regional Member Country
SE	:	Self-Evaluation
SER	:	Self-Evaluation Report
SMEs	:	Small and Medium-size Enterprises

## KEY CONCEPTS

**Annual Private Sector Portfolio Evaluation Report:** Synthesis report on private sector evaluations elaborated by OPEV. The report provides an overview of trends and issues related to the quality of portfolio of private sector projects and evaluation results.

**Annual Supervision Report (ASR)** is a monitoring report elaborated according to a standard format for each project each year.

**Benchmark:** Denotes the yardstick to be used as basis for assessment of the project/dimension. The specific benchmarks are defined in the indicators of the project, and ideally this should be done at the appraisal stage.

**Early operating maturity:** *Non-financial projects:* The year during which the substantially completed project has generated at least 18 months of operating revenues for the company, reflected in at least two sets of its audited financial statements.

*Financial intermediary operations:* The project year when substantially all of the intermediary's sub-projects financed by AfDB have reached at least 18 months past the intermediary's final disbursement of sub-loans (or sub-investment in the case of equity fund projects).

**Independent evaluation:** Evaluations of private sector projects and other evaluations (sector, thematic etc.) undertaken by OPEV.

**Indicator/sub-indicator:** Each performance dimension will consist in a number of specific indicators and sub-indicators to be assessed for overall assessment of the dimension. E.g. the dimension 'Development Outcomes' consist in, among others, indicators for growth in the economy, living standards and environmental sustainability. Indicators should be specific as what to measure/assess and the level expected at the end of the project/milestones of the project. They should be specified in the investment proposal.

**Monitoring:** Undertaken annually by OPSD to assess project implementation progress, status and advances towards objectives and expected results.

**Performance dimensions:** Refer in the case of Direct Project Loans to the four dimensions of: (i) Project's business success, (ii) Project's development outcomes, (iii) AfDB's investment profitability and (iv) AfDB's operational effectiveness, which are the building blocks for assessment of the project in the Self-Evaluation Report and in the Annual Supervision Reports. In the case of Lines of Credit other performance dimensions will have to be elaborated.

**Self-Evaluation:** Project evaluation undertaken by OPSD for projects (or a sample) to assess the attainment of objectives and results of the project.

**SER Evaluation Note:** Validation of the SER analysis, judgements and conclusions undertaken by OPEV after SER. Elaborated according to a standard format.

**Self-evaluation Report (SER)** is a self-evaluation report elaborated according to a standard format at early operating maturity for each project or a sample of projects.

**EXECUTIVE SUMMARY**

This manual represents a systemic approach to monitoring and evaluation of private sector projects funded by AfDB.

Schematically, the monitoring and evaluation system can be depicted as follows:

<b>Activity</b>	<b>Instrument</b>	<b>Responsible</b>	<b>Frequency</b>
Monitoring	Annual Supervision Report	OPSD	Annually
Self-evaluation	Self-Evaluation Report	OPSD	Once for each project/sample, at early operating maturity
Independent Evaluation	SER Evaluation Note	OPEV	Once for each project where SER has been conducted, after completion of SER
Synthesis of Evaluation Outcomes	Annual Private Sector Portfolio Evaluation Report	OPEV	Annually

The basis for the manual is a Study on Evaluating the Process and Portfolio Performance of the Private Sector Operations of the Bank (December 2002) (hereafter referred to as the Evaluation Study), which focused mainly on project loans. Thus, the present manual focuses on monitoring and evaluation of non-financial projects. Lines of credit have recently gained importance in AfDB, but there is still a need to gain further knowledge on these types of projects in order to develop specific monitoring and evaluation guidelines, as the Evaluation Study showed that they cannot be assessed using the same guidelines as non-financial projects. AfDB is planning to do an evaluation of lines of credit on basis of which guidelines can be developed.

After ten years of pilot activities with regard to private sector development, the AfDB is at present in the process of enlarging its activities and to make procedures compatible with MDB ECG Good-Practice Standards for the Evaluation of Private Sector Investment Operations (hereafter referred to as the ECG GPS). In this process the new vision of AfDB is also taken into consideration in monitoring and evaluation.

The projects are assessed on four performance dimensions, including a number of indicators and sub-indicators. Assessment on the dimensions is included in both monitoring and self-evaluation and is validated by independent evaluation. The four dimensions are:

**Project outcome: Results on the ground**

1. Business success
2. Development outcome

**AfDB's involvement in project**

3. AfDB investment profitability
4. AfDB's operational effectiveness

The manual outlines the various activities and the four assessment dimensions. The annexes provide detailed formats for monitoring and evaluation reports.

## 1. **BACKGROUND**

1. This manual on guidelines for monitoring and evaluation of private sector projects represents an attempt at a systemic approach to monitoring and evaluation.
2. Portfolio management and monitoring procedures were reinforced as the Portfolio Management Group was established in 2001. The main instrument for monitoring is the Annual Supervision Report (ASR) elaborated for each project, which focuses mainly on financial results and compliance with covenants. Until now a systematic evaluation practice for private sector projects has not existed in AfDB. Only one draft Project Completion Report has been elaborated, based on the guidelines for the public sector, and no private sector evaluation guidelines exist.
3. As more importance is attached to the Private Sector Window and as its portfolio grows, a systematic monitoring and evaluation approach is called for in order to follow-up on individual projects and generate lessons learned. The new guidelines ensure the necessary links between the AfDB vision, project preparation according to the new proposed investment criteria<sup>1</sup>, implementation performance and project outcomes. The main new elements included in monitoring and evaluation are development outcomes and AfDB operational effectiveness.
4. The development of the manual, should be seen in the context of the present efforts by the Evaluation Co-operation Group (ECG) of the Multilateral Development Banks (MDBs) to develop Good Practices Standards (GSP) for Evaluation of Private Sector Investment Operations to be applied by all MDBs in order to make evaluation results comparable and to ensure that their findings are properly translated into operational standards. As part of these efforts, a stocktaking exercise has recently been undertaken by a consultant recruited by the MDBs. The results of this study are to be further discussed by the MDBs.
5. The basis for the manual the Study on Evaluating the Process and Portfolio Performance of the Private Sector Operations of the Bank (December 2002) (hereafter referred to as the Evaluation Study), which also assesses the experiences of monitoring and evaluation. Its lessons learned are incorporated into this manual.
6. Furthermore, the manual should be seen in the context of a Restructuring exercise of the Private Sector Department of AfDB, which is being undertaken at present.
7. The present manual focuses on monitoring and evaluation at the project level, as this appears most pertinent considering the present private sector portfolio and systems. In the future, as the portfolio grows and as the project monitoring and evaluation systems are in place, it will be possible to include aspects such as guidelines for sector and country evaluations.

---

<sup>1</sup> Proposed in Deloitte & Touche: *Study on Restructuring of the Private Sector Department*, Sep. 2002.

8. Thus, the manual should be seen as a flexible instrument which can be altered as e.g. ECG standards are developed, as the restructuring of the OPSD is in place and as the guidelines have been tested.

## **1.1 Private Sector Operations in Africa**

1.1.1 Private enterprises play an important role in economic development. In recent years Regional Member Countries (RMCs) have adopted policies that encourage the development of the private sector and are creating an enabling environment for business. Given the pace of reforms in the region and the improving investment climate in the RMCs, the demand for private sector assistance has been growing in recent years. In response to the growing emphasis on private enterprise in RMCs, the African Development Bank - hereafter the Bank or AfDB - offers assistance to the private sector to promote efficient use of resources and to help accelerate sustainable economic development.

1.1.2 Private sector operations in the African Development Bank, started in the early part of 1990. To implement its mandates, the Private Sector Department of the Bank (OPSD) has developed policies and guidelines over the years. In 1996, a revision based on experiences so far was initiated. Currently, OPSD is operating based on revised policies, guidelines, and a procedure manual. These are:

- Proposal for Revision of the Private Sector Operations Policies (December, 1998).
- Equity Investment Policy Guidelines (March, 1995).
- Revised Policies for Lines of Credit to Private Sector Financial Institutions (June, 1998).
- Guidelines for Private Sector Loans (December, 2001).
- Procedure Manual for the Administration of Private Sector Loans and Equity Investments (Undated).

## **1.2 AfDB Vision for Private Sector Development**

1.2.1 In 1999, a new vision document for the AfDB was elaborated, which defines the vision, the strategy and operationalisation of the vision and niche of AfDB.

1.2.2 According to the document, the vision statement of the AfDB is: “The African Development Bank Group Strives to be the leading development finance institution in Africa, dedicated to providing quality assistance to African Regional Member Countries in their poverty alleviation efforts.”

1.2.3 The Bank has adopted a development assistance strategy to promote accelerated, sustainable economic growth with equity and poverty reduction as its central goals. The Bank’s operational focus is centered on the following key areas of intervention:

- At the country level, three broad sectoral themes: agriculture and rural development, human resource development and private sector development;
- One generic theme: governance;
- At the regional/continental level: economic integration and co-operation;

- Two cross-cutting issues: environment and gender.

1.2.4 With regard to the private sector, the strategy of the Bank is to assist RMCs in:

- Building the enabling environment for financial sector development;
- Developing private infrastructure and micro-credit and savings services;
- Streamlining their regulatory and legal environments;
- Building entrepreneurial capacity of indigenous agri-business and grass root institutions;
- Building the right image for investment on the continent.

1.2.5 The Private Sector Operation should reflect these visions and strategies. Most importantly, renewed emphasis is placed on poverty reduction. The Study on the Restructuring of the Private Sector Department (October 2002) in line with the vision proposes a set of investment criteria for private sector operations with which the Management apparently concurs. These criteria are:

- Financial and economic viability
- Contribution to poverty alleviation
- Fit with the profile and exposure limits agreed with FFMA (Risk Management)
- Conformity to accepted standards of environmental sustainability
- Add value, such as improvement in design of projects, structures or operations, greater capacity among local development finance institutions etc.

1.2.6 These aspects should be reflected in investment proposals and appraisals and they should accordingly be a main element of monitoring and evaluation as well. The MDB-ECG GPS also emphasise development outcome (including environmental sustainability) and MDB operational effectiveness (including additionality) as main building blocks of evaluation, along with business success and AfDB investment profitability, which to date have been the main focus of monitoring in AfDB.

1.2.7 The AfDB after ten years of pilot activities with regard to private sector development is at present in the process of enlarging its activities and to make procedures compatible with ECG GPS.

### **1.3 The Private Sector Window of AfDB**

1.3.1 Bank financing is provided directly to private enterprises and financial institutions through term loans, equity participation, quasi-investments, guarantees, underwriting, loan syndication and advisory services. The Bank also extends lines of credit to financial institutions for on-lending to small and medium-size enterprises (SMEs). The nature, terms and conditions of the Bank's investment in a particular venture depend on the risk and expected returns of the venture, as well as the characteristics of the corporate entity receiving the investment. In addition, the Bank provides advisory services to RMCs on ways to improve the environment for private enterprise and develop financial services and markets.

1.3.2 Historically, focus has been on project loans, but recently lines of credit have gained importance. Advisory services still only exist in an embryonic form.

1.3.3 With a view to strengthening its catalytic role in assisting private enterprises, the Bank adopted a new strategy for the development of the private sector in May 1996. In the context of this strategy, the Bank created a Private Sector Window, which is administered by OPSD set up for this purpose. OPSD has embarked on sharpening and expanding its private sector operations towards strengthening the Bank's role as a credible player in private sector project finance and related private sector development activities such as privatisation, promotion of foreign direct investment and the creation of an enabling business environment.

1.3.4 In January 2001, the Bank has embarked on a reorganization exercise in order to fully implement its new vision and strategy, and to improve its efficiency. The new structure is entered into force in January 2002.

1.3.5 However, acknowledging the specific nature of the work of the private sector organization unit, as well as the importance of making more central the objective of promoting private sector development, the Board has decided to consider the future of OPSD separately. The Board felt that, at least, OPSD needs increased independence, granting it with its own operating framework, lighter and more responsive, as well as procedures and processes more in tune with the needs of its private sector clientele.

1.3.6 Within this framework, a study on restructuring of OPSD has been undertaken. The conclusions and recommendations of the consultant have been considered by the Management of AfDB. Management's position and own recommendations are presented in a Management Report and are submitted to the Board for final decision.

1.3.7 As a consequence of the restructuring, the Management recommends that a Portfolio Management Division be created within OPSD, which will be responsible for among others supervision, monitoring and self-evaluation. This will be a strengthening of the present Portfolio Management Group. The new structure is expected to function from 1 January 2003 for a transition period of one year.

1.3.8 At present the new structure for OPSD is pending final decision; however, the present monitoring and evaluation manual takes it point of departure in the findings of the evaluation study (December 2002) with a view to the general direction of recommendations within the Management Report.

#### **1.4 The Two-pronged Objective of the Manual**

1.4.1 The guidelines take into consideration the ECG MDB GPS. These apply to self-evaluation of projects, but have an influence on monitoring, as leading up to evaluations. The application of the ECG MDB GPS is based on the lessons learned from the Study on Evaluating the Process and Portfolio Performance of the Private Sector Operations of the Bank (December 2002). Further details on the lessons learned can be found in the Evaluation Report.

1.4.2 For the monitoring and evaluation system to be able to assess the dimensions outlined, it is required that the same issues are considered in investment proposals and that specific indicators/benchmarks are defined at this stage.

### ***1.4.1.1 Monitoring and Self-Evaluation – The Domain of OPSD***

1.4.1.1.1 Monitoring and self-evaluation (SE) denote the tasks undertaken by the present Portfolio Management Group, in the future expected to become the Portfolio Management Division of OPSD<sup>2</sup>.

1.4.1.1.2 The main aim of *monitoring* is to be able to detect problems at an early stage where it is still possible to change aspects of the project and thus steer it towards a successful outcome. Furthermore, monitoring contains elements of accountability in that it confirms whether projects conform to agreements and project plans. However, it is important that the problem-solving and forward-looking perspective is emphasised.

1.4.1.1.3 Additionally, monitoring should lead up to and form a basis for evaluations. It will provide some of the information needed for evaluation and will document the development of the project. Therefore elements to be included in evaluations should also be included in monitoring. The main instrument of the monitoring system is the Annual Supervision Report (ASR) which will be elaborated for each project each year.

1.4.1.1.4 *Self-evaluation* will be the main project evaluation undertaken. The main purposes are to generate lessons learned for future portfolio development and to provide accountability. Depending on the timing of the evaluation, it can also serve for follow-up on the individual project. The main instrument is the Self-Evaluation report (SER) which will be elaborated at early operating maturity for each project or a sample of projects, based on ECG GPS.

1.4.1.1.5 Monitoring and self-evaluations will be undertaken by OPSD in the interest of efficiency, ownership of SERs, rating judgements, learning from experience and providing accountability for results. Supported by relevant functional staff, OPSD will:

- Execute ASRs on Bank investments in accordance with monitoring guidelines and ensure ASR report quality and delivery of the annual ASR programme within schedule;
- Execute SERs on Bank investments in accordance with self-evaluation guidelines and ensure SER report quality and delivery of the annual SER programme within schedule;
- Identify and bring to bear relevant lessons and findings from the evaluation system in screening, appraisal and structuring of new investment operations and supervision/monitoring of portfolio investment operations;
- Contribute to the development of monitoring and evaluation guidelines and standards, including providing process feedback on problems encountered in applying them.

---

<sup>2</sup> In the rest manual referred to only as the Portfolio Management Division.

- Enter into dialogue with OPEV regarding project ratings and SER Evaluation Note ratings.

#### ***1.4.1.2 Independent Evaluation – The Domain of OPEV***

1.4.1.2.1 OPEV will undertake independent evaluations, which consist in validation of the SERs, and in sector, programme, thematic and country evaluations. OPEV is also in charge of producing an Annual Private Sector Portfolio Evaluation Report, which will give an overview of trends and issues related to the quality of the portfolio of private sector projects and evaluation results.

1.4.1.2.2 At present, this manual focusing on project monitoring and evaluation, is limited to including guidelines for the validation of SERs (also called SER Evaluation Note), which will validate the findings, judgements and ratings of the SER. As importance of private sector operations and the portfolio grows, guidelines for other evaluations to be undertaken by OPEV can be added.

1.4.1.2.3 OPEV will:

- Define, write and continuously refine AfDB's evaluative standards, instruments and related guidelines in consultation with relevant persons within AfDb and informed by internal experience and stakeholder feedback;
- Establish, in consultation with OPSD, the population of early-maturity projects for sampling and SER execution<sup>3</sup>;
- Providing input to OPSD in their development of the SER delivery schedule and familiarise the SER staff from OPSD with sound evaluation execution practices and providing them with operation-specific advice to the extend needed;
- Verify SER findings, performance judgements and rating on the basis of systematic reviews in SER Evaluation Notes;
- Establish a dialogue with OPSD about possible differences in ratings and judgements;
- Synthesise the OPEV-verified SER findings, supplemented as appropriate by other evaluations, ASR findings and portfolio analysis, to elaborate an Annual Private Sector Portfolio Evaluation Report;
- Monitoring and reporting on the quality and efficiency of the evaluation system, including application of lessons learned in new operations.

---

<sup>3</sup> The ECG GPS defines the evaluation department as responsible for establishing the population and sample. The Evaluation Study has no findings which suggest otherwise.

Schematically, the monitoring and evaluation system can be depicted as follows:

Activity	Instrument	Responsible	Frequency
Monitoring	Annual Supervision Report	OPSD	Annually
Self-evaluation	Self-Evaluation Report	OPSD	Once for each project/sample, at early operating maturity
Independent Evaluation	SER Evaluation Note	OPEV	Once for each project where SER has been conducted, after completion of SER
Synthesis of Evaluation Outcomes	Annual Private Sector Portfolio Evaluation Report	OPEV	Annually

## 2. GUIDELINES FOR MONITORING AND SELF-EVALUATION

### 2.1 Introduction

2.1.1 The present guidelines for monitoring take their point of departure in the OPSD Portfolio Management Manual from 2001, adding elements mainly to the Annual Supervision Report format and field supervision. Based on the new AfDB vision and the development of new evaluation guidelines, which include development outcome and AfDB operational effectiveness, these aspects are added to the present monitoring system.

2.1.2 As there are no present evaluation guidelines for private sector projects, the drafting of self-evaluation guidelines use several sources of inspiration as their basis:

- Existing AfDB evaluation guidelines for the public sector, notably the Project Performance Evaluation Report (PPER), as it appears relevant to use guidelines which are already familiar to the AfDB to the extent possible.
- The MDB-ECG Good Practice Standards for Evaluation of Private Sector Investment Operations.
- Evaluation guidelines for private sector investment operations from other MDBs, mainly the IFC.
- Findings from the Study on Evaluating the Process and Portfolio Performance of the Private Sector Operations of the Bank (December 2002).

### 2.2 Objectives and Scope of Monitoring and Self-Evaluation

2.2.1 Effective monitoring and evaluation is critical to the achievement of OPSD's objective of promoting the private sector and continuously improving impact and performance of projects.

2.2.2 Systematic monitoring and SE of projects financed by AfDB and investee companies is therefore aimed at ensuring that:

- i) The projects are in compliance with the key contractual obligations agreed with the bank to mitigate and manage risks;
- ii) The projects remain in line with the policies, procedures and broader development goals of AfDB and show development outcomes and project business success;
- iii) The AfDB's operational effectiveness lives up to standards and investment profitability is as expected;
- iv) Problems and deviations from agreements and project plans are detected at an early stage and necessary action is taken to remedy the situation;
- v) Lessons learned are incorporated into project and portfolio management and into screening, appraisal and structuring of new investment proposals.

2.2.3 Monitoring primarily aims at ensuring that the project is on the right track and that necessary adjustments are made to ensure successful outcomes. Furthermore, monitoring serves as a basis for SE as it provides documentation for project progress, developments in the context and possible adjustments to project plans, indicators and benchmarks.

2.2.4 SE focuses on lessons learned and serves accountability purposes in looking at the operation's relative success considered against private sector development vision and strategies

2.2.5 Three key principles to be followed in monitoring and SE are:

- i) Since AfDB is not involved in the day to day management of its investee companies, it is essential to undertake regular and close consultations with the sponsors and management to know what is happening; and
- ii) The focus of the client relationship should be on early identification and resolution of problems as they arise, working collaboratively with sponsors and co-financiers as partners.
- iii) Monitoring and evaluation results and possible adjustments should be discussed with investee companies in a dialogue to find the best solutions.

### **2.3 Evaluation Dimensions and Rating Standards**

2.3.1 The criteria and indicators for monitoring and SE are defined and outlined in Annex I and in the formats (Annex 3 and 4). Overall, the projects are monitored and evaluated on four dimensions:

**Project outcome: Results on the ground**

1. Business success
2. Development outcome

**AfDB's involvement in project**

3. AfDB investment profitability
4. AfDB's operational effectiveness

2.3.2 In monitoring ratings are not applied, as the focus should be on problem-solving and adjustments. Indicators/objectives for the particular year (which specify benchmarks) should be defined in the investment proposal. If this is not the case, it is important that the ASR defines expected indicators/objectives for the year with reference to the benchmarks at the end of the project.

2.3.3 For SE the review of the four dimensions will be more detailed. The evaluation of each dimension, its indicators and sub-indicators should be made with reference to the investment proposal, which ideally should state indicators (specifying benchmarks) for the particular project and the weight applied to each of the dimensions and indicators. E.g. a project could be approved placing particular weight on raising living standards and improving environmental sustainability of production. In the SE these indicators should therefore be of major importance when rating project performance.

2.3.4 The four dimension ratings are a summary qualitative performance judgment drawn from a consideration of the underlying indicators ratings, but they are not a simple average of the indicator ratings. No overall project rating will not be applied as more importance should be attached to the picture outlined by the four dimensions for lessons learned. This is compatible with ECG GPS.

## **2.4 Outline of Monitoring**

2.4.1 This section outlines the procedures and steps in monitoring.

### **a) Reporting from Investee Companies**

One primary source of information for OPSD to monitor the performance of its investments are reports produced by the clients.

- i) Reporting Requirement Letter: AfDB's investment agreements impose both standard and project specific reporting obligations on investee companies. To help clients focus on their reporting obligations, it will be good to outline the reporting requirements in a special letter to be sent after the agreements are signed, and before the first disbursement is made. Attached, as Annex 2.1, is a recommended format for the

reporting letter. This letter should be addressed to both the designated recipient of official correspondence for the investee company; and the person in the company identified during appraisal and negotiation of the AfDB investment as most appropriate to coordinate the provision of information (usually the Chief Financial Officer).

- ii) Quarterly Operational and Financial Reports: Submission of quarterly operational and financial reports should be a standard requirement of all investee companies (including funds, equity only investments, and guarantee investments).

The contents and formats of these reports will vary depending on each transaction, but should include at the minimum information on both the project AfDB has financed, and the company, which is the beneficiary (and hence obligor) of the AfDB financing. A standard format for non-financial projects can be found in Annex II. This format can be altered according to the present project and company.

To facilitate the submission of timely and accurate information, it would be good to develop and agree with the company during investment negotiations, a standard format for preparing these reports that can be annexed to the reporting requirements letter.

Because timeliness is crucial to effective portfolio management, it is better to design the quarterly reporting requirements in a way, which will permit the company to submit the required reports within 30 days of the end of the relevant quarter. In this regard it is important to carefully weigh the advisability of insisting on audited, rather than unaudited, quarterly financial statements, when the reporting obligations are being negotiated.

- iii) Annual audited accounts: In addition to annual audited accounts and management letters from auditors, it may be desirable in some projects to require annual independent auditors certifications of the investee company's compliance with key financial covenants. The covenants that would require independent audit certification (e.g. limits on non project related capital expenditures) should be agreed with the sponsors at the time of investment negotiations.
- iv) Insurance: AfDB's legal documents impose on clients a duty to maintain appropriate and adequate insurance and to name the Bank as a loss payee of such policies in certain circumstances. To properly monitor the compliance by clients of this important covenant it is important that clients submit annual information certifying the insurance coverage they have. This reporting obligation should be included in the reporting requirements letter.
- v) Environmental Information: Given the importance the Bank attaches to the observation of sound environmental practices by its clients, it is necessary to monitor continued compliance by investee companies during the life of the Bank's exposure. Annual Environment reports,

or certification should therefore be included in the reporting requirements letter.

**b) Reviews of client reports.**

- i) Tracking system: It should be expected that not all investee companies will be diligent in submitting required reports. A client's performance in this area is usually a good early indicator of the quality and adequacy of its management practices and of the soundness of its management information system. An important component of proactive monitoring, therefore, consists of systematic tracking of, and follow-up on the receipt of reports from clients. The reporting requirements letter for each client should be used as a checklist to monitor, on a quarterly basis, what reports are due, and when they are actually received.
- ii) Quarterly Operational and Financial Reports: All quarterly operational and financial reports received in OPSD should be reviewed. The focus of these reviews will be on:
- The business and financial performance of the company for the quarter in question.
  - Identification of emerging problems
- iii) Annual Audited Accounts: Annual audited accounts will typically be received about 3 months after the end of the investee company's fiscal year. Because of this normal time lag, the focus of OPSD review of these reports should be on identifying longer term structural issues, as opposed to emerging problems (quarterly reviews). These reviews should ideally be undertaken in the context of the preparation of the Annual Supervision Report (see section d).
- iv) Insurance: The information supplied by clients annually confirming the insurance cover they have should be reviewed independently to assure AfDB that the coverages remain appropriate for the risks involved in the business. For exposures in large projects (e.g. infrastructure), these annual insurance reviews will typically be carried out by the insurance consultants engaged by the lending group at the time the deal was put together. For smaller exposures, arrangements should be made to have an external consultant review the coverages if necessary.

**c) Field Supervision.**

A central element of OPSD's monitoring system is field supervision. It is the vehicle through which OPSD can undertake more comprehensive reviews of the status and performance of projects and investee companies, to supplement and confirm the insights gained from desk reviews of reports and particularly to add elements of a more qualitative nature related to the enabling environment and development outcome of the project. Field supervision is the primary source of information for the Annual

Supervision Report (ASR). The field supervision should therefore pay attention to the needs for data gathering and analysis required for the ASR.

- i) Frequency: Field supervision should be undertaken at least once every year (12 month cycle) for all committed investments (i.e. those for which the legal documents have been signed).
- ii) Contents. The focus of the field supervision should be on the issues to be monitored in the ASR:
  - Project implementation progress
  - Project implementation capacity
  - Business success
  - Development outcomes
  - AfDB's investment profitability
  - AfDB's operational effectiveness
  - Status of compliance with loans and principle covenants
- iii) Persons to meet. To cover the contents described above it will be important to meet representatives of the investee company/project; representatives from other groups of stakeholders, including employees, sub-contractors, suppliers, customers, trade unions and employers' associations; and government representatives. The field visit should give an impression of the results and effects of the project seen from the point of view of different groups of direct and indirect stakeholders.
- iv) Debriefing note. Before departure from the field visit, a debriefing note should be elaborated and discussed with stakeholders, outlining main findings and conclusions and possible suggestions for adjustments. The debriefing note provides an immediate feedback to stakeholders, and the discussion of it provides an opportunity for receiving corrected and additional information and viewpoints on suggestions for the future.

**d) Annual Supervision Reports (ASR)**

A supervision report will be prepared each year for each portfolio project. The timing of the preparation of each report will be determined by the Portfolio Management Division. For planning purposes due dates for these reports will be staggered to allow even distribution of completion dates over the four quarters of the AfDB fiscal year.

In scheduling due dates for submission of ASRs, the Portfolio Management Division will pay particular attention to the annual schedule for field supervision. The ASRs will be completed soon after the annual field supervision. It will be based on data collected during the supervision visit as well as project documentation (quarterly operational and financial reports, audit reports etc.).

The ASR is a document used for monitoring purposes, including:

- Following project implementation progress and the achievements towards objectives.
- Detecting discrepancies from investment proposal/appraisal and reasons for such divergence.
- Detecting changes in the context, which influence the project.
- Recording early warning signals indicating a problem investment and taking action in this respect.
- Recommending possible follow-up and corrective actions. Note that not all discrepancies necessarily need to be corrected as it will depend on the reasons for changes. Changes in the context might demand a change of project plans and expected results. It might also be found that the assessment in the investment proposal does not correspond to reality and thus project plans should be revised.
- Providing a basis for evaluation and extracting lessons learnt.

When earlier ASRs have been conducted, the ASR should also follow up on the main issues and recommendations of the previous ASR.

In carrying out the ASR, the investment proposal should be referred to in assessing advances, project results, changes in the enabling environment etc. Aspects which have not been included at the appraisal stage, but now appear to have an impact on the project, should also be included. Where indicators/benchmarks are not included in the investment proposal, the officer in charge should - prior to the field visit - consider which results can be expected and use these as the basis for assessment.

The ASRs will be a standardized and comprehensive issue oriented document. Annex III provides a format for ASRs.

**e) Directors and Shareholders Meetings.**

AfDB has appointed Directors to represent it on the Boards of some investee companies. Where this is the case, the attendance and participation in Board meetings provide another opportunity to undertake reviews of a company's performance, and to consult with co-investors.

The Portfolio Management Division will liaise with all Directors to ensure; that AfDB is represented at key meetings (at least at the meetings where annual plans and budgets are to be discussed); that board documents are previewed by the OPSD officer in charge of the investment so that appropriate advice can be given to the Director on agenda items; and that a report is prepared and submitted to the Portfolio Management Division by the Director, at the end of the board meeting.

The following issues should be considered for inclusion in Board meetings:

- Business success.

- Development outcomes, including living standards (not only of direct stakeholders, but also e.g. of sub-contractors or other indirect stakeholders) and environmental issues.
- Developments in the enabling environment (conditioning factors).

Shareholders meetings are typically pro-forma events in most jurisdictions, and would not normally require AfDB attendance. Nevertheless, if important resolutions are to be considered at such meetings, the Portfolio Management Division should arrange for AfDB to be appropriately represented by proxy.

## 2.5 Outline of Self-Evaluation

2.5.2 The main element of SE is the Self-Evaluation Report (SER). This section describes the steps and procedures for carrying out an SER. The detailed content of the SER is found in Annex IV, which describes the format for the report.

### a) Objective

The SER is aimed at assessing the business success, development outcomes, AfDB's operating effectiveness and investment profitability of the Bank's private sector activities.

A SER has two purposes:

- *Accountability*: Through the SERs the Bank accounts to its Board and shareholders for achievement of its objectives for private sector operations and its financial sustainability.
- *Learning*: the SERs contribute to identifying lessons to help improving private sector operations and portfolio management. The SERs may also be used in other evaluation studies.

### b) Timing, sampling and coverage

To be reliable in anticipating outcomes and therefore relevant to their purpose, evaluative judgements on an operation must be based on a long-enough track record of demonstrated operating performance. For this reason, an operation is included in an annual approvals cohort for sampling and reporting only when the project has reached *early operating maturity*.

#### i) Definition of early operating maturity

***Non-financial projects:***

The year during which the substantially completed project has generated at least 18 months of operating revenues<sup>4</sup> for the company, reflected in at least two sets of its audited financial statements.

***Financial intermediary operations:***

The project year when substantially all of the intermediary's sub-projects financed by AfDB have reached at least 18 months past the intermediary's final disbursement of sub-loans (or sub-investment in the case of equity fund projects).

The experience from the Evaluation Study is that it will be preferable to do the evaluation, particularly field studies, before final loan payments have been undertaken, as it is easier to get access to the project and enter into a dialogue with the investee company. Thus, this criterion should also be taken into consideration when selecting projects for SER.

ii) Selection of projects for SERs

**Step 1:** OPEV establishes the project maturity status of each investment.

**Step 2:** Define the net approval population (NAP) consisting of all disbursed investments which have reached early operating maturity and projects never reached early operating maturity, which have been closed by their fifth year after approval<sup>5</sup>.

**Step 3:** Determine the evaluation coverage. For the years to come, SERs could be executed on the total NAP (which corresponds to MDB-ECG best practice). Assuming that projects will reach early operating maturity at an equal rate, with the present portfolio size, approximately 3-4 projects per year, which will be candidates for SER (according to the table below).

Committed private sector loans and equity projects, year of signing:

	1994	1995	1996	1997	1998	1999	2000	2001	2002	Total
<b>Loans</b>	0	0	1	1	2	2	1	3	4	14
<b>Equity</b>	1	0	1	3	2	2	1	0	0	10
<b>Total</b>	1	0	2	4	4	4	2	3	4	24

Alternatively, depending on capacity, a plan for inclusion of an increasing number of projects over the next three years could be developed.

To check representativeness, distribute total population within the following categories:

<sup>4</sup> The ECG GPS use 18 months as the cut-off point for early operation maturity and the Evaluation Study does not point to any other cut-off point.

<sup>5</sup> The latter is in accordance with ECG GPS and the Evaluation Study findings do not suggest another cut-off point.

1. Investment size:

( - US\$ 4.69 mm)  
 (US\$ 4.70 – 25.87 mm)  
 US\$ 25. 88 – 90.00 mm)

2. Instruments:

Project loan  
 On-lending  
 Equity Investment  
 Other

3. Sectors:

Manufacturing  
 Agriculture  
 Mining  
 Infrastructure  
 Financial

4. Indicative financial performance, loans:

Performance according to expectations  
 Watch-list  
 Problem project  
 Failure

5. Indicative financial performance, equity:

Performance according to expectations  
 Losses

6. Sources of finance

ONLY AfDB plus private investors  
 AfDB plus other MDBs + private investors

7. Country**c) Methodology**

The SER will use various methodologies for gathering data and elaborating the analysis in a number of steps.

**i) Review of project documentation and preparation of issues paper**

As a first step project documentation should be reviewed. Central project documentation is the documentation from project monitoring, particularly ASRs and ASR Evaluation Notes, supplemented by other documents as needed.

The SER team should take note of the ASR findings, corrective actions and follow-up. These findings should contribute towards the evaluation rating and assessment.

On the basis of the review of project documentation an issues paper should be prepared. The purpose of this is to outline the major issues requiring examination, the need and timing for a field mission and its composition, and justification for support from specialists, if required.

ii) Obtain in-house information and advice

Talk to staff who have been involved in the project and staff who have relevant expertise on the issues to be covered by the SER.

iii) Field mission

A central element of the SER should be a field mission. It is the vehicle through which more comprehensive and up-to-date information can be obtained and gaps in existing information can be filled. It should be considered to draft parts of the SER prior to the field mission in order to identify gaps.

To cover the contents of the SER and provide a broad picture of project results and success it is important to meet a broad section of direct and indirect stakeholders. This includes representatives of the investee company/project; representatives from other groups of stakeholders, including employees, sub-contractors, suppliers, customers, trade unions and employers' associations; and government representatives. Findings should be verified and cross-checked among stakeholders.

**d) Content**

The main focus of the report is on the assessment of project outcomes and AfDB involvement. In short the main contents are:

- A description of important context features and project information;
- An identification of key indicators and expectations stated in the investment proposal;
- An assessment and rating of the project's business success and development outcomes and of AfDB's investment profitability and operational effectiveness;
- A discussion of the rationale for the rating and of reasons for discrepancies from expectations in the investment proposal;
- Identification of emerging lessons from the experience to date.

## **2.6 Processing, Reporting and Distribution Procedures**

2.6.1 The SER will be cleared with the Vice-President supervising OPSD activities and then sent to OPEV for preparation of the SER Evaluation Note.

2.6.2 SER conclusions and lessons learned will be disseminated through a database of evaluation findings regarding private sector projects to be developed by OPEV. OPEV will be responsible for inclusion of SER conclusions and findings in the

database. SER information will only be included in the database after it has been validated by OPEV<sup>6</sup>.

### **Quarterly Portfolio Review Meetings.**

2.6.3 Quarterly portfolio review meetings, chaired by the OPSD Director, and attended by representatives from Risk Management, Legal and Environment and other relevant Departments will serve as an OPSD Portfolio Committee, to review both specific projects and overall portfolio trends. The Portfolio Management Division will prepare for consideration and discussion at these meetings, a Quarterly Status Report.

2.6.4 ASRs completed during the quarter will be circulated for discussion. Main issues and recommended follow-up of ASRs will be discussed and follow-up will be agreed.

2.6.5 These review meetings, and the supporting documentation, will provide the forum and the basis for the quarterly credit risk rating of the OPSD Portfolio, for setting the level of specific provisions, and for necessary follow-up on monitoring.

### **Reporting to Senior Management and Board.**

- i) Quarterly Report from OPSD: The Quarterly Portfolio Status Report is also designed to provide the basis for quarterly reporting to AfDB's President and Vice Presidents on the overall status of the OPSD portfolio, and will be circulated for their information.
- ii) Annual Report from OPSD: To keep the Board informed, an annual report on overall OPSD operations is envisaged. A section of this report will provide:
  - A summary of the changes in the size and composition of the Portfolio and its performance in the fiscal year concerned.
  - An analysis of the financial impact of the portfolio, drawing upon information from the Department's Revenue and Expense Statement.

---

<sup>6</sup> This database does not exist at present, but apparently a parallel database for public sector projects exist. The development of such a database for the private sector is the suggestion of the consultant, but requires decision by AfDB.

### **3. GUIDELINES FOR INDEPENDENT EVALUATION**

#### **3.1 Introduction**

3.1.1 These guidelines have been developed by adjusting the Revised Guidelines on Project Completion report (PCR) Evaluation Note, which are used by OPEV for public sector projects, to private sector projects and SER criteria and formats.

3.1.2 The adjustment is made on the basis of findings and conclusions from the evaluation Study (December 2002), and it is ensured that the guidelines are ECG GPS compatible to the extent found relevant.

#### **3.2 Objectives and Scope for Independent Evaluation**

3.2.1 OPEV is responsible for independent ex-post evaluation. It reviews all completed SERs in order to:

- Validate performance ratings;
- Assess the adequacy of the performance indicators described in the SER to evaluate business success, development outcomes, AfDB investment profitability and AfDB operational effectiveness;
- Monitor SER quality and report its findings to the Board, Senior Management and operations staff;
- Compile information about the project for evaluation databases to be developed for private sector operations by OPEV;
- Record OPEV-validated ratings and SER evaluation summaries in a project information system to be developed for private sector operations by OPEV;
- Provide feedback, from a Bank wide perspective, on lessons learned.

3.2.2 Thus, the main objectives are independent validation of findings and conclusions of self-evaluation and ensuring systematic learning from SERs.

#### **3.3 Review of Self Evaluation Report**

3.3.1 As soon as an SER is received by OPEV, it is assigned to an Evaluation Officer for evaluation of the quality of the report and the objectivity of its ratings and findings, and the validity of lessons to be learned. Each SER is reviewed by OPEV in order to validate and adjust the performance ratings.

3.3.2 The evaluator summarizes his/her findings in an evaluation note. This note conveys the ratings, comments the lessons to be drawn, assesses the quality of the SER and proposes whether the project is a candidate for a sector, thematic, country or other evaluation study.

3.3.3 The SER Evaluation Note should be discussed between OPSD and OPEV before its finalisation. On basis of the discussion/review the SER and/or SER Evaluation Note can be revised.

### 3.3.1.1 *Desk Review*

First, for all SERs a desk review is conducted. This is based on information provided in the SER, in project documentation (identification, preparation and appraisal reports, ASRs, reviews, audit reports etc.), and other documents (loan agreement, disbursement profiles etc).

### 3.3.1.2 *Field Missions*

3.3.1.2.1 If necessary, OPEV can decide to conduct field missions to the project in order to gather additional information and validate findings of the SER. Field studies will mainly be conducted if substantial information gaps exist in the SER, if OPEV based on a desk review considers that it does not agree with conclusions and ratings, or if it is considered that a field visit can add to lessons to be learned, e.g. if it is a new type of project.

3.3.1.2.2 Field missions should take care to meet with a broad section of direct and indirect stakeholders of the project, including investee company representatives, employees, sub-contractors, suppliers, customers and government officials. Information should be verified and cross-checked among stakeholders.

## 3.4 **Evaluation Dimensions and Rating Standards**

3.4.1 The SER Evaluation note will assess the quality of the SER based on the following criteria:

- The quality of its individual chapters,
- The objectivity and soundness of judgement,
- Appropriateness and adequacy of coverage,
- Inclusion of key data and supporting material,
- Adequacy of analyses including lessons learned,
- Consistency and quality of ratings.

Where a field mission is conducted, new findings and conclusions should be included in the SER Evaluation Note and should be fed back to OPSD.

Ratings will be applied to the individual assessments of the SER using a four-point scale. See Annex I for instructions.

The reference point for the evaluation of SERs is the Guidelines for Self-Evaluation, found in this manual.

## 3.5 **Outline of SER Evaluation Note**

The SER Evaluation Note consists of a simple format (see Annex V) which is to be filled in. It consists in five main sections:

- i) Validation of the SER findings and judgements: The adequacy of analysis, soundness of judgements and responsiveness to the SER scope is validated through rating. Narrative explanations as to why specific ratings were assigned should be provided in the remarks' column. For assessment of each point, the SER Evaluation Note should take as its point of departure the SER guidelines and assess the completeness of analysis and soundness of judgements of indicators as well as performance dimensions.
- ii) Agreement/disagreement of project rating: OPEV should - based on its analysis of the SER, project documentation and possible field visit – state whether it agrees with OPSD's project rating. Reasons for disagreement should be stated, as should OPEV's suggested rating where disagreement exists. This should be done for indicators and for the four performance dimensions (business success, development outcome, AfDB investment profitability and AfDB operational effectiveness).
- iii) Conclusion and follow-up: A narrative conclusion of the SER Evaluation Note should be written as well as follow-up action/decisions needed.
- iv) Priority of project for other evaluations: It should be stated whether the project would be suitable for inclusion in other evaluations, such as sector, country, impact and thematic evaluations. This is done for purpose of easy retrieval of case projects in the future.
- v) Agreed project ratings sheet: The SER Evaluation Note should be discussed with OPSD before finalisation. In case there is disagreement on project ratings, a sheet with final project ratings agreed between OPSD and OPEV should be attached to the SER and the SER Evaluation Note.

### **3.6 Outline of Annual Private Sector Portfolio Evaluation Report**

3.6.1 The Annual Private Sector Portfolio Evaluation Report will be elaborated by OPEV to give an overview of projects evaluated during the year (SERs and SER Evaluation Notes). The report will provide:

- An analysis of the portfolio in relation to the AfDB vision, objectives and strategies.
- An overview and analysis of evaluation results and validations.
- Lessons learned for future portfolio management, monitoring and evaluation.

3.6.2 The report should include:

- A profile of the evaluated sample against the NAP and the basis for SER sampling (only when a sample is evaluated and not the whole NAP);
- The rating criteria and benchmarks;
- A table/drawing showing the proportion (and number) of evaluated projects in each rating category by performance dimension (where ratings of OPEV and OPSD differ, OPEV rates should be used and this should be indicated);
- A synthesis description and analysis of the ratings patterns;
- Lessons learned for improving the AfDB's performance.

### **3.7 Processing, Reporting and Distribution Procedures**

#### SER Evaluation Note Review

3.7.1 Before finalisation of the SER Evaluation Note, the findings and ratings will be discussed between OPEV and OPSD. The focus will be on ratings of the SER Evaluation Note and on possible differences in project performance ratings. Ideally, agreement on project performance ratings should be found and the SER and/or the SER Evaluation Note can be revised to accommodate review input. The review should discuss other issues arising from the evaluation, performance ratings and lessons learned.

3.7.2 Prior to submission of its Annual Private Sector Portfolio Evaluation Report, OPEV prepares a validation variance memo and sends it to the responsible OPSD manager, with copies to the SER teams and their manager.

#### Annual Private Sector Portfolio Evaluation Report from OPEV.

3.7.3 The Annual Report will constitute the reporting to Senior Management and the Board.

#### Evaluation Database

3.7.4 For dissemination of findings and results of SERs and SER Evaluation Note, information will be included in an evaluation database regarding private sector projects to be developed by OPEV<sup>7</sup>.

3.7.5 The evaluation database should contain:

- Basic project information;
- Brief information on the evaluation (methodologies, constraints etc.);

---

<sup>7</sup> This database does not exist at present, but apparently a parallel database for public sector projects exist. The development of such a database for the private sector is the suggestion of the consultant, but requires decision by AfDB.

- Evaluation findings, conclusions and ratings;
- Lessons and recommendations;
- Feedback.

3.7.6 The database should also contain information on how the evaluation was rated by OPEV and conclusions from the SER Evaluation Note.

**PERFORMANCE DIMENSIONS, INDICATORS AND RATING STANDARDS FOR  
SELF-EVALUATION****PRIVATE SECTOR NON-FINANCIAL PROJECTS.**

1. These evaluation criteria, indicators and rating standards are prepared for evaluating the portfolio performance of the private sector operations of the AfDB with the view of drawing lessons of experience that could guide future interventions in the sector. Lesson should also be drawn from using the criteria and format for SER. On basis of these lessons as well as further development of MDB-ECG Good-Practice Standards for Evaluation of Private Sector Investment Operations, further adjustments can be made.

2. The indicators developed relate to one of four performance dimensions: (1) Business Success, (2) Development Outcome, (3) AfDB's Investment Profitability, and (4) AfDB's Operational Effectiveness. The concept, indicators and rating standards are outlined below:

3. These correspond to the evaluation dimensions developed by MDB-ECG. However, in the ECG GPS business success is an integrated part of the dimension 'Development Outcome'. As AfDB's objective in its new vision places enhanced emphasis on poverty alleviation, it appears appropriate to separate the two dimensions to maintain an equal focus on different objectives of poverty alleviation and business performance, as positive results on these two dimensions might not coincide.

4. Under each dimension, there are a number of sub-dimension with related indicators. Below, only generic indicators are listed, as the specific indicators will depend on the individual project and its design. Not all indicators mentioned might be relevant for a specific project and additional indicators might be useful. The same applies to sub-indicators. Overall, indicators related to each of the four dimensions should be assessed for each project.

5. The indicators should be specified in the investment report and these (or later adjustments e.g. in Annual Supervision Reports) should be used for the SER.

**1. Project/Company Business Performance**

Concept: Project/company business performance measures the project's actual and projected financial impact on the company and the company's overall financial performance. Sufficient financial returns are necessary to attract private investment.

Indicators: *The financial rate of return* (FRR) should be used as one indicator. As the 'still-to-go FRR' can rarely reasonably be estimated the following steps should be applied:

1. Insert actual benefit and cost figures up to present.

2. On the basis of information collected at self-evaluation set up crude cost and benefit figures
3. Calculate new maximum and minimum FRR estimates (plus/minus 20%).

Several *financial ratios* could also be applied to evaluate the financial soundness of the business.

Rating standards/benchmarks:

- Excellent: Project substantially raised the Company's profitability
- Satisfactory: Project has a neutral to positive effect on profitability (or adequate overall profitability, i.e. satisfactory long-run return for promoter(s))
- Partly unsatisfactory: Project returns were sufficient to cover cost of associated debt, but did not provide adequate returns to promoter(s) (or expected long-run returns less than satisfactory but at least equal to cost of debt financing)
- Unsatisfactory: Project returns insufficient to cover cost of associated debt (or expected long-run returns less than cost of debt financing)

The overall performance of the company should also be evaluated in a similar fashion.

Successful companies can have unsuccessful projects and vice versa. Comment on the Company's prospects as a viable, internationally competitive firm. Focus on any issues that might threaten the company's survival and thus could endanger realisation of the still-to-go project benefits.

**2. Development Outcomes:**

Concept: A project's development outcome encompasses all effects that affect a country's economic and social development. Development outcomes are evaluated on a "with versus without project" comparison, i.e. considering (1) what happened with the project and, (ii) counterfactually, what would have happened without it.

Provide a brief description of the project objectives and implementation and a plausible paragraph on what you believe would have happened without the project. This may be achieved by referring to the 'without'-situation described in the investment proposal, or in case this does not exist, assumptions made about the project at approval. (Section 1.2 of the SER format).

**2.1 Project's Impact on Private Sector Development**

Concept: The Bank encourages the growth of productive private enterprises. This indicator addresses to what extent the project has contributed to this purpose beyond the project Company.

Indicators: Important factors to consider include but not limited to project's impact on domestic product or services through 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 company's governance quality, reputation and business practices as a positive corporate role model and quality investment asset.

Rating standards:

- Excellent: considering its size, the project made a substantial contribution to the growth of private enterprises beyond the company
- Satisfactory: the project had some, but no major positive impacts
- Partly Unsatisfactory: the project had some negative impacts, which, however, are not expected to be of long duration or broad applicability
- Unsatisfactory: substantial negative impacts of broad applicability and/or expected to be of long duration

## **2.2 Project's Impact on the Enabling Environment**

Concept: the Bank Private Sector Policy specifies that the Bank shall play its catalytic role to help create conditions conducive to the flow of private capital into productive investment. This objective could be measured in terms of improvements in the business environment catalysed by the project. Not all projects are expected to improve the enabling environment, and the rating should be based on the expectations in the investment proposal.

Indicators: Evaluate whether project-related technical assistance and the project's 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.

Rating standards:

- Excellent: considering its size the project made a substantial contribution to the improvement of the enabling environment.
- Satisfactory: the project had some but no major impact on the enabling environment.
- Partly unsatisfactory: the project had some negative impact which, however, are not expected to be of long duration or broad applicability.
- Unsatisfactory: substantial negative impacts of broad applicability and/or expected to be of long duration.

## **2.3 Growth in the Economy**

Concept: Part of the Bank's vision is to "further economic development in its RMCs" (and encouraging private sector development is the means to achieving that purpose). 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 project's effects on the local economy and the associated benefits and costs.

Indicators: The best indicator of a project's contribution to economic growth is its economic rate of return (ERR), which measures (quantifiable) net economic benefits. However, at the stage where an SER is normally conducted the ERR often cannot yet be calculated. Therefore, average growth in gross profit up till self-evaluation may be used as the indicator instead.

Rating standards:

- Excellent: Project is highly economically viable and greatly contributed to the performance of the Company
- Satisfactory: Project is economically viable and adequately contributed to the performance of the Company
- Partly unsatisfactory: Project is not economically viable and has no positive contribution to the performance of the Company
- Unsatisfactory: Project is not at all economically viable and has negatively affected the performance of the Company

## **2.4 Living Standards**

Concept: The Bank's mission is ultimately to provide quality assistance to African RMCs in their poverty alleviating efforts. For a project to be successful, it should benefit not only the (usually small group of) owners and financiers, but also other members of the society. This indicator addresses the project's net benefits only to those who are neither owners nor financiers. This other group may include all the other stakeholders -customers, employees, competitors, local residents, etc.

The difference between the net economic benefits and the net financial benefits is the project's net impact on society other than the project financiers. However, this as an indicator does not say how benefits and costs are distributed, which is also important in assessing the impact on living standards.

Indicators: In addition to the quantifiable economic indicator, qualitative assessment is required to describe the project's main effects on living standards. This could include indicators such as total wages (increases), wages to unskilled labour, effects of the project in the project area (positive/negative), effects of possible displacements (positive/negative). The assessing the results, the evaluator should be aware of

assessing both intended as well as unintended effects. Effects should be disaggregated according to various groups and should be gender disaggregated.

Rating standards:

Depending on the impact on people other than the project financiers relative to the size of the project, rate the project:

- Excellent: Substantial and widespread improvement in living standards
- Satisfactory: Positive impacts at least as large as any offsetting negative impacts;
- Partly Unsatisfactory: Negative impacts outweigh positive effects
- Unsatisfactory: Large and widespread negative impacts

**2.5 Environmental Sustainability:**

Concept: 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.

Environmental and social sustainability include the project's impacts on the physical environment and social issues (including occupational health and safety), which should be considered if they have entered into project performance or public perceptions of the operation.

Indicators: Environmental and social performance should be evaluated against compliance with AfDB's specified standards/requirements at approval of the project and at the time of self-evaluation, i.e. those requirements that would apply if the project were approved today.

Rating standards:

- Excellent: The project has either shown environmental and social commitment broader than AfDB requirements or acted as a good practice example plus consistently met AfDB's 'at approval' requirements and is acceptable in view of AfDB's current requirements.
- Satisfactory: The project is in material compliance with either AfDB's current or at-approval requirements regarding environment and social sustainability.
- Partly Unsatisfactory: The project is not in material compliance with AfDB's current or at approval requirements regarding environment and social issues, but deficiencies are being addressed through ongoing and/or planned action or earlier non-compliance (meanwhile corrected) resulted in environmental damage.
- Unsatisfactory: The project is not in material compliance with AfDB's current or at-approval requirements and mitigation prospects are uncertain or unlikely or earlier non-compliance

(meanwhile corrected) resulted in substantial and permanent damage.

### **Overall Development Outcome Rating**

Concept: This rating is a synthesis of the overall impact of the project on the development of the country, and thus implicitly addresses how well the project has contributed to the results on the ground in the country of operation.

Indicators: Development outcome ratings are based on the above stated development outcome sub-dimensions, each measuring a distinct aspect of the performance of the project. The development outcome rating is a bottom-line assessment of the project's results on the ground and not an average of the indicators.

#### Rating standards:

- Excellent: A project with positive development outcomes with virtually no flaws.
- Satisfactory: A project which may have some shortcomings, but with a clear preponderance of positive aspects.
- Partly unsatisfactory: A project with either minor shortcomings across the board, or some egregious shortcoming in one area that outweighs other generally positive aspects
- Unsatisfactory: A project with material negative development aspects with no material redeeming positive aspects to make up for them

### **3. AfDB's Investment Outcomes**

Concept: 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 loan income and/or equity returns that were expected at approval. These outcomes are partially inherent in the nature of the investment instruments (Loans or Equity).

The section on investment outcome is still being considered by the consultants. Will appear in the final version.

### **4. AfDB's Operational Effectiveness**

Concept: This section addresses three areas of Bank's operational performance: (1) screening, appraisal and structuring; (2) supervision and administration; and (3) role and contribution. The role and contribution is divided into a number of sub-indicators. The assessment depend 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 supervising the project, had insufficient role and made no contribution.

#### **4.1 Screening, appraisal, structuring:**

Concept: Evaluate to what extent the Bank has professionally executed its front-end work. The Bank's private sector operating policies and procedures, as well as its credit notes provide guidance on what the Bank considers an appropriate professional standard. How well did the Bank perform at the initial stages of the project cycle? Were there material variances from the appraisal assumptions about market, the sponsors, the enabling environment, and company performance prospects (including environmental performance) that should have been anticipated at screening and appraisal? Were material risks identified and did the Bank mitigate them sufficiently?

Indicators: Evaluate the Bank's processing of the project at entry based on principal variances between expectations at approval and actual outcomes. Analyse the effectiveness of the Bank's assessment of the sponsors and management, markets/marketing. Revenues, and profitability prospects, and the effectiveness of implementing the Bank's at- approval procedure for environmental appraisal. Effectiveness of implementing the AfDB at-approval procedures for environmental appraisal. Effectiveness in identifying stakeholder groups and integrating stakeholder interests. Evaluate the AfDB's assessment of prospective development outcomes. 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. Were there any conflicts or co-ordination issues with the terms of co-financiers' loans?

Rating standards:

- Excellent: The Bank's front-end work could serve as a best-practice example;
- Satisfactory: The front-end work met the Bank's good practice standards;
- Partly unsatisfactory: There was a material shortfall in at least one important area;
- Unsatisfactory: There were material shortfalls in several areas or a glaring mistake omission bordering on negligence in at least one important area.

#### **4.2 Monitoring and Supervision:**

Concept: Evaluate to what extent the Bank has professionally executed its monitoring and supervision. How well did the Bank address company reporting, supervise the project, detect emerging problems and respond expeditiously with effective interventions?

Indicators: Assess whether the company's reporting, and the Bank staff visits and Annual Supervision Reports were adequate to monitor developments, ensures

compliance with covenants and contributes to the operation's success. Evaluate the adequacy of the monitoring of the company's environmental performance. Did the Bank identify emerging problems and opportunities and were its responses timely and appropriate? If not, Why? Assess whether AfDB Board representation (where relevant) was used to enhance monitoring and improve performance of the project.

Rating standards:

- Excellent: The Bank was always fully informed about the project's and company's performance in all material areas and used this knowledge proactively when needed to improve the project's development outcome and/ or the Bank's investment outcome.
- Satisfactory: The Bank was sufficiently informed to react in a timely manner to any material change in the project's and company's performance.
- Partly unsatisfactory: The Bank's supervision was insufficient to monitor the project's and company's performance and/or did not cater to timely intervention.
- Unsatisfactory: The Bank missed material developments, and/or did not use information to intervene before a crisis.

### **4.3 Role and Contribution:**

Concept: In investing in the company and supervising the project, 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 complementarity observed? Was the Bank timely and efficient, and was the client satisfied? 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 participate in an investment only when it can make a special contribution not offered or brought to the deal 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 will function like a business in partnership the private sector and take the same commercial risks. Did the Bank accept the same commercial risks and earn the same returns as 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 project opportunity, mobilise funding, or attract better terms for the company than would otherwise have been the case?

Consider these three operating principles if and as material to your evaluation, and also consider the following:

- ***The Bank's Timeliness, Efficiency, and Client Satisfaction:*** Were the Bank's interactions with the sponsors and company 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.

Indicators: As this sub-dimension captures various issues, it can be divided into a number of indicators:

- The rationale for the Bank's investment in relation to corporate, country and sector strategy.
- AfDB's additionality.
- AfDB's catalytic role
- Relevance of safeguards
- Support to the project since inception
- Client service satisfaction

As the basis for assessing the Bank's additionality, consider what would have happened if the Bank had not financed this project.

- Would the company have found alternative financing?
- Would the project have been more or less successful?
- Did the company actively seek alternative financing before coming to the Bank, and what was the outcome?

The following steps can be applied:

1. Identify an alternative to AfDB (e.g. a local investor, IFC, none)
2. State the situation with AfDB and with alternative regarding:
  - cost of investment
  - support to management
  - support to institution building

Consider possible additional value could the Bank have contributed to the project's design, or done differently to improve project or company performance and development impacts.

Rating standards:

- Excellent: the Bank's role was essential for the project 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;
- Partly unsatisfactory: the Bank's role or contribution fell short in a material area; and
- Unsatisfactory: the Bank's role was not plausibly additional and the Bank's expected contribution was not forthcoming.

**Overall Operational Effectiveness Rating**

Concept: This section rate 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.

Indicators: The overall effectiveness rating is based on the three sub-dimensions (1) appraisal, (2) supervision, and (3) role and contribution. The Bank's effectiveness rating can be no lower than the worst sub-dimension, and no higher than the best. The rating is a bottom-line assessment of the AfDB's operational effectiveness and not an average of the indicators.

Rating standards:

- Excellent: Bank's performance was exemplary;
- Satisfactory: Bank's performance was up to a high professional standard;
- Partly unsatisfactory: There was a material shortfall in at least one area;
- Unsatisfactory: There were shortfalls in several areas or a glaring shortfall in one areas which lead (or could have led) to a less-than-satisfactory development or investment outcome.

**FORMATS FOR CLIENT REPORTING**

**ANNEX 2.1 – FORMAT FOR REPORTING REQUIREMENTS LETTER  
- INDUSTRIAL PROJECTS**

**AFRICAN DEVELOPMENT BANK**  
TELEPHONE: 229 20 41 44 (Operator)  
229 204087 (Direct)  
FACSIMILE: 229 20 99 67

**BANQUE AFRICAINE DE DÉVELOPPEMENT**



16, B.P. 1707 - ABIDJAN 01  
CÔTE D'IVOIRE

*Office of the Director*  
E-mail: L.Borlin@afdb.org

*Promoting the Private Sector in Africa*

REFERENCE: OP/D/O-ZIMB-01/1  
DATE:

Mr. K. N. NAIR  
Group Financial Controller  
Marasa Holdings Limited  
P.O. Box 38789  
Lusaka  
Zambia  
Fax: 260 1 253 308

*Attention of: Mr. Farhan NAKHOODA - Projects Director*

Dear Sir,

**RE: REPORTS TO BE SUBMITTED TO ADB**

I refer to the Loan Agreement between the African Development Bank (ADB) and Marasa Holdings Limited, signed on 13 April 2001, under which the ADB has agreed to provide a loan in the amount of US\$ 5 million to Marasa Holdings Limited to assist it with the financing of the renovation, rehabilitation and refurbishment of the 'Hotel Intercontinental Lusaka' (HICL).

Under the terms of this Agreement (Articles XIV, XVII and XVIII), you have undertaken to provide a number of reports to the Bank on a periodic basis to enable the Bank monitor the progress of the project implementation and the performance of its loan. The purpose of this letter is to summarise for you, the various reports that you have agreed to provide, their desired formats, and the expected timing for the submission of these reports.

The reports you have agreed to provide and their formats are as listed on the attached annex 1. We count on your cooperation in ensuring that Marasa Holdings Limited meets its reporting obligations to the Bank, and look forward to a good business relationship with your company. In this regard, we would like you to sign and return a copy of this letter to us, to acknowledge receipt of same.

Yours faithfully,

**Luciano BORIN**  
*Director*

We acknowledge receipt of this Reporting Requirements Letter and agree to honour our reporting obligations to the Bank in terms of the Loan Agreement entered into with the ADB.

Signed by:..... Position in Company:.....  
Date:.....

**ANNEX 2.2 - FORMAT FOR REPORTING REQUIREMENTS LETTER  
- REMINDER**

**AFRICAN DEVELOPMENT BANK**

TELEPHONE: 229-29 44 44 (Operator)  
229-29 29 97 98 (Direct)  
FACSIMILE: 229-29 39 6700, 29 49 64



**BANQUE AFRICAINE DE DÉVELOPPEMENT**

81 B.P. 1387 - ABIDJAN 01  
CÔTE D'IVOIRE

*Private Sector Department*

*E-mail: s.french@afdb.org*

*Promoting the Private Sector in Africa*

REFERENCE: CPST/DIR/SAIF  
DATE:

Mr. Gavin Kerr  
Managing Director  
South Africa Infrastructure Fund Limited (SAIF)  
Ground Floor, Kildare House  
Fedsure Oval  
Oakdale Road  
Newlands 7700  
South Africa

Fax: 27 21 683 8565

Dear Mr. Kerr,

**RE: REPORTS TO BE SUBMITTED TO ADB (REMINDER)**

We would like to refer you to the Shareholders Agreement/Trust Deed between the African Development Bank (ADB) and SAIF, signed on 23 July 1997. In particular, we wish to draw your attention to the reporting covenants of the aforementioned agreement, whereby, SAIF undertook to provide the Bank with the certain reports, on a timely basis, to enable the Bank to monitor and supervise the performance of its investment in the Fund.

In this regard, we write to remind you that we have not yet received the following reports which are now overdue:

<u>Reports</u>	<u>Due Dates</u>
2 <sup>nd</sup> Quarter Progress Report	31 July 2001
Management Accounts to 30/6/01	31 July 2001
Environmental Compliance Report on Investee Companies	31 July 2001

We feel that this may be due to an oversight on your part, and so we kindly request you to forward the above named reports to the Bank as soon as possible.

We look forward to your co-operation and compliance with the reporting covenants outlined in the Shareholders Agreement/Trust Deed referred to above.

Yours sincerely,

Sydney L. French  
Chief Investment Officer  
Portfolio Management Unit

**ANNEX 2.3 – QUARTERLY REPORT FROM INVESTEE COMPANY****FORMAT FOR PROJECT IMPLEMENTATION PROGRESS REPORTS****A. PHYSICAL IMPLEMENTATION**

	Original Completion Date	% of Completion as of Current Quarter	Projected Completion Date
Buildings			
Civil Works			
Installations			

**B. EVOLUTION OF PROJECT COSTS**

	Original Estimates US \$ Millions	Expenses to Date US \$ Millions	Estimated to completion US \$ Millions
Land			
Buildings			
Civil Works			
Equipment			
Design & Engineering			
Project Management			
Start-up-Expenses			
<b>SUB-TOTAL</b>			
Interest Expense			
Working Capital			
<b>SUB-TOTAL</b>			
Contingencies			
<b>TOTAL</b>			

**C. UTILIZATION OF FUNDS**

	Original Plan US \$ Millions	Funds Spent to Date US \$ Millions	Estimated to completion US \$ Millions
<b>EQUITY</b>			
Cash			
Internal generation			
Contributions in kind			
<b>SUB-TOTAL</b>			
<b>DEBT</b>			
Subordinated			
Senior			
<b>SUB-TOTAL</b>			
<b>TOTAL FINANCING</b>			

**FORMAT FOR ANNUAL SUPERVISION REPORT**

***ANNUAL SUPERVISION REPORT For Fiscal Year***

<b>Country:</b>						<b>Date of Report:</b>				
<b>Project Name:</b>						<b>ProjectID:</b>		TEST001		
<b>Sector:</b>										
<b>Description</b>										
<b>Sponsor Name</b>						<b>Co-Financeers:</b>				
<b>AfDB Investment in 000's:</b>										
<b>Investment Type</b>	<b>Equity</b>		<b>Quasi-Equity</b>		<b>Loan/Sub-Loan</b>		<b>LOC</b>		<b>Guarantee</b>	
<b>Exposure Currency</b>	UA		UA		UA		UA		UA	
<b>Approved/Commit.</b>										
<b>Disbursed</b>										
<b>Undisbursed</b>										
<b>Cancelled</b>										
<b>Securities</b>						<b>Security Value in curr.</b>				
						<b>Risk rating:</b>				
						<b>Env. Cat:</b>				
<i>in 000's</i>	<b>Principal</b>	<b>Interest</b>	<b>Penalty</b>	<b>Total</b>	<b>Provisioning 000's UA</b>					
<b>Arrears (UA)</b>										
<b>Status:</b>	<b>Outstanding</b>	<i>Currency</i>	<i>UA</i>							
	(in 000's)									
<b>Recommendation:</b>										
<b>Project Team:</b>										
<b>Investment Officer:</b>				<b>Legal Officer:</b>						
<b>Portfolio Officer:</b>				<b>Credit Officer:</b>						
<b>Engineer:</b>				<b>Envir. Officer:</b>						
<b>Economist:</b>				<b>Consultant</b>						
<b>Loan Administration: FLAD Officer:</b>						<b>FACT Officer:</b>				
<b>AfDB Board Representation:</b>				<b>Last Supervision Mission:</b>						
<b>Alternate:</b>				<b>Next Supervision Mission:</b>						

Amount in 000's

**Project Investment Summary**

<b>Project Name:</b>				<b>Project ID:</b>		
				<b>Date of Report:</b>		
<b>Project Cost</b>	<b>Original Date:</b>	<b>Amount in UA</b>	<b>%</b>	<b>Current Date</b>	<b>Amount in UA</b>	<b>%</b>
<i>Land:</i>						
<i>Buildings</i>						
<i>Civil Works</i>						
<i>Plant Machinery</i>						
<i>Design Equipment</i>						
<i>Start-Up</i>						
<i>Working Capital</i>						
<b>Sub-Total:</b>						
<b>Contingencies</b>						
<b>Interest d/construction</b>						
<b>Sub-Total:</b>						
<b>Total Project Cost:</b>						
<b>Financing Plan</b>						
<b>Equity</b>						
<b>Quasi-Equity</b>						
<b>Internal Cash Gen.</b>						
<b>Sub-Total Equity:</b>						
<b>Debt</b>						
<b>AfDB</b>						
<b>Other DFIs</b>						
<b>Commercial</b>						
<b>Oter Debts</b>						
<b>Sub-Total Debt:</b>						
<b>Total:</b>						

**Key Dates**

<b>Board Approval:</b>		<b>Commitment:</b>		<b>Effective:</b>	
<b>First Disbursement:</b>		<b>Closing:</b>			
<b>First Repayment:</b>		<b>Final Repayment:</b>			

Original Exchange Rate in UA:

Current Exchange Rate in UA:

***Operational and Financial Performance Indicators Summary***

Amount in 000's

<b>Project Name:</b>							<b>Project ID:</b>
<b>Key Financial Indicators</b>							
		Year	Year-1	Year-2	Year-3	Year-4	
<b><u>Summary Oper. Statement</u></b>							
Capacity Utilisation (%):							
Production Output (Vol):							
Sales (Volume):							
<b><u>Summary Profit/Loss Acc</u></b>							
Turnover:							
Gross Profit:							
Profit before Interest/ Tax							
Profit Before Tax.							
Net Profit after Tax:							

<b><u>Summary Cash Flow Statement</u></b>		Year	Year-1	Year-2	Year-3	Year-4
Current Assets:						
Fixed Assets:						
Investments:						
<b>Total Assets:</b>						
Current Liabilities,						
Long-term Liabilities:						
Shareholders' Equity:						
<b>Total Capital Employed:</b>						
<b><u>Source of Funds</u></b>						
Funds generated from operations:						
Equity Subscription:						
Borrowing/Loans:						
Others:						
<b><u>Application of Funds</u></b>						
Capital Expenditure:						
Investments:						
Loan/Debenture Repayments:						
Pref. Shares Redemption:						
Net Cash Flow:						
Closing Cash Balance.						

***Operational and Financial Performance Indicators Summary***

*Amount in 000's*

**Key Financial Ratios**

		Year	Year-1	Year-2	Year-3	Year-4
<b><u>Profitability</u></b>						
Gross Profit:						
Net Profit Margin:						
R.O.E.:						
R.O.C.E.:						
<b><u>Solvency and Leverage</u></b>						
Interest Cover Ratio:						
Debt Services Cover Ratio:						
LT Debt/Equity Ratio:						
Dividend Cover Ratio:						
<b><u>Liquidity</u></b>						
Current Ratio:						
Acid Test Ratio:						
Working Capital Ratio:						

**Analysis and Comments**

**A. STATUS OF COMPLIANCE WITH PRINCIPAL COVENANTS**

<b>Reporting requirements</b>	
<b>Insurance Adequacy</b>	

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

**B. FINANCIAL COVENANTS**

<b>Borrowing Limits</b>	
<b>Investment Limits</b>	
<b>Lien Restrictions</b>	
<b>Financial Ratios</b>	

**C. PROJECT PERFORMANCE**

	<b>Indicators/objectives defined in investment proposal (for this year)</b> <i>If objectives and indicators are not stated clearly in investment proposal state expectations prior to field visit or indicators/objectives defined in earlier ASRs</i>	<b>Findings</b> <i>State the findings of the Annual Supervision (field supervision, report review and others)</i>	<b>Reason for achievements and deviations*</b> <i>These can include:</i> - <i>Project internal factors</i> - <i>Changes in project external factors (e.g. enabling environment)</i> - <i>Unrealistic appraisal assessment</i> - <i>Unrealistic assumptions</i>	<b>Follow-up or Adjustment measures proposed</b> <i>State person(s) responsible for measures proposed.</i>

	<b>Indicators/objectives defined in investment proposal (for this year)</b>	<b>Findings</b>	<b>Reason for achievements and deviations*</b>	<b>Follow-up or Adjustment measures proposed</b>
<p><b>1. Project Implementation Progress</b>  <i>Describe how implementation is progressing with reference to the implementation plans made in the investment proposal or defined before field visit.</i>                      - on time/behind or ahead of schedule                      - project achievements/results during the year                      - unforeseen significant events/results (internal and external)</p>				
<p><b>2. Project Implementation Capacity</b>  <i>Describe the capacity of the company to implement the project until now. Describe possible needs for strengthening of capacities. Include:</i>                      - Management capacity                      - Technical capacity</p>				
<p><b>3. Development Outcomes</b>  <i>At early stages of the project, outcomes can be difficult to assess. However, indications of whether the project is moving towards the development outcome planned should be monitored, using the performance dimensions below.</i></p>				
<p><b>3a. Business Success</b>  <i>Describe the financial position and performance of the company.</i></p>				
<p><b>3b. Private Sector Development</b></p>				

	<b>Indicators/objectives defined in investment proposal (for this year)</b>	<b>Findings</b>	<b>Reason for achievements and deviations*</b>	<b>Follow-up or Adjustment measures proposed</b>
<i>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.</i>				
<b>3c. Development in Enabling Environment</b> <i>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.</i>				
<b>3d. Living Standards</b> <i>Should include direct and indirect stakeholders. Can include employment creation, employment conditions, employment of vulnerable groups etc.</i>				
<b>3e. Environmental and Social Sustainability</b> <i>Compliance with AfDB standards at appraisal and with current AfDB standards. If any changes in AfDB 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.</i>				
<b>4. Investment Profitability</b> <i>Assess AfDB's investment profitability (using the figures of the first part of ASR).</i>				

	<b>Indicators/objectives defined in investment proposal (for this year)</b>	<b>Findings</b>	<b>Reason for achievements and deviations*</b>	<b>Follow-up or Adjustment measures proposed</b>
<p><b>5. AfDB's Operational Effectiveness</b>  <i>Describe to which extent monitoring and supervision has followed AfDB procedures.</i>  <i>Describe to which extent and how AfDB involvement and support has contributed significantly to the project and/or the company.</i>  <i>Describe whether AfDB has played a catalytic role.</i></p>				
<p><b>6. Early Warning Signals</b>  <i>State signs in any of the above findings (including sections A &amp; B) providing indications that the investment could become a problem investment.</i>  <i>Refer to the definition of early warning signals for the investment made at appraisal (or latest changes in ASRs).</i></p>				

\* Note that factors influencing the project could very well be found through the analysis of other issues of the matrix. E.g. weaknesses in management capacity might be a reason for lack of project progress as planned.

**FORMAT FOR SELF-EVALUATION REPORT**

**Length of report:** Maximum 20 pages excluding appendices.

**A. Front page**

Country:
Project name & no.:
Sector:
Board approval date:
AfDB investment approved:
AfDB disbursement dates:
AfDB evaluation team:
Evaluation date:
Person responsible:

**B. Abbreviations, currency equivalents**

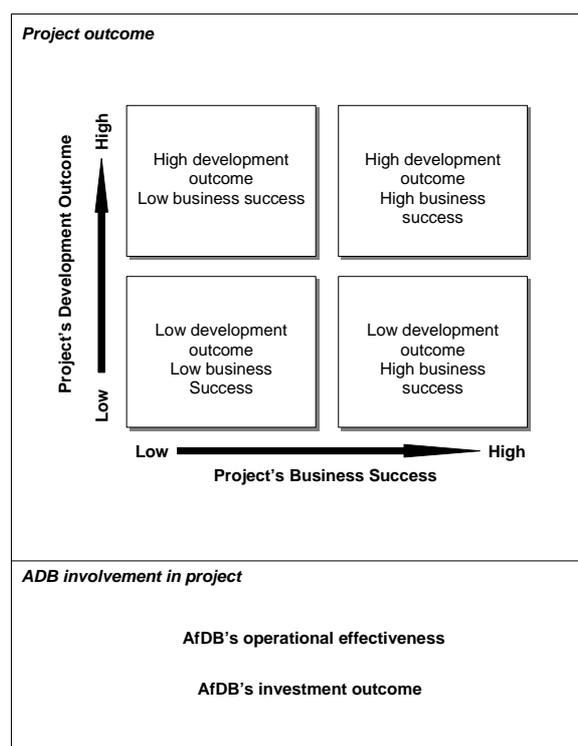
**C. Table of contents, appendices**

**D. Overall ratings**

*Overview of overall ratings for business success, development outcome, AfDB investment profitability and AfDB operational effectiveness.*

*Ratings should be depicted in the matrix below:*

- *Emphasize in bold the part of the matrix where the project is situated with regard to business success and development outcome.*
- *Write the rating for AfDB investment profitability.*
- *Write the rating for AfDB operational effectiveness.*



## E. Evaluation summary (max. 2 pages)

To ensure consistency of formats between reports and to facilitate data entry in databases, the summary should be presented with the sub-headings (i) The Project, (ii) The Evaluation (methodologies used and sources of data), (iii) Evaluation Conclusions and Ratings, (iv) Lessons and Recommendations and (v) Feedback. The section should contain information on:

## F. Performance Evaluation

### Chapter 1: The project and its Context

#### 1.1 Context

The section highlights the economic situation of the country, government policies and priorities, description of the sector and key development constraints in the sector, AfDB and other donor activities in the sector/country. The section should describe the situation today and as identified at appraisal.

#### 1.2 Project objectives and implementation

- Project rationale and objectives.
- Situation “with” and “without” project as stated in the investment proposal and comments on relevance of the “with” and “without” project situation
- Summary of key data and information on the loan (overall financial sources, disbursement profile, etc.). The information should include the situation at appraisal and at evaluation. Reasons for discrepancies should be described.
- Describe significant events (external/internal), estimated effect on project turn-out
- Describe the project's position in the sector

### Chapter 2: The Evaluation

### 2.1 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 collection and methodologies applied. Describe analytical and evaluative methods adopted to attribute benefits to project and donors should be spelt out.*

### 2.2 Key performance indicators

*Describe the key indicators with reference to the four evaluation dimensions (business success, development outcome, AfDB investment profitability and AfDB operational effectiveness). Describe which indicators carry particular weight in the evaluation of the project (with reference to investment proposal). Describe how well the criteria and indicators were quantified at appraisal and in case this was not done at appraisal, describe how indicators were derived. Describe the development over time in indicators, e.g. whether adjustment has been made as a result of monitoring and state reasons for and adequacy of such adjustments.*

## **Chapter 3: Project Outcome and AfDB Involvement**

*For detailed indicators and rating standards for all performance dimensions, please refer to Annex I of the manual and Appendix A (found at the end of this format).*

*Detailed findings and ratings for each sub-indicator are to be described in Appendix A to this format.*

*For new projects (i.e. where the without situation is described in e.g. the investment proposal) an attempt should be made to assess development outcome indicators on a **‘with vs. without project’** basis. The **‘before-after’** situation should always be assessed too in order to facilitate evaluation and ensure common standards for SERs.*

*The project outcome should assess **both intended and unintended outcomes** (positive and negative) of the project.*

### 3.1 The Project’s Business Success

- *Describe the business success with reference to the indicators set up in the investment proposal*
- *Rate business success*
- *State rationale for the rating and reasons for deviations from expected results*

### 3.2 The Project’s Development Outcome

*Development outcome should be assessed with regard to four indicators, which each can have sub-indicators as well:*

- **Private sector development**
- **Enabling environment development**
- **Growth in the economy**
- **Living standards**
- **Environmental and social sustainability**

*For each of the indicators (and their sub-indicators) below, include the following in the analysis:*

- *Describe the development with reference to the indicators set up in the investment proposal.*
- *Rate the dimension/indicator.*
- *State rationale for the rating and reasons for deviations from expected results*
- *Provide an overall assessment and rating for development outcome based on the four ratings above*

### 3.3 AfDB's Investment Profitability

- *Assess investment profitability in accordance with Annex I.*
- *Rate profit contributions*
- *State rationale for the rating and reasons for deviations from expected results*

### 3.4 AfDB's Operational Effectiveness

*Operational effectiveness should be assessed with regard to three indicators, which each can have sub-indicators as well:*

- ***Screening, appraisal and structuring***
- ***Monitoring and Supervision***
- ***AfDB's role and contribution***

*For each of the indicators:*

- *Describe the development with reference to the indicators set up in the investment proposal*
- *Rate the indicator*
- *State rationale for the rating and reasons for deviations from expected results*
- *Provide an overall assessment and rating for AfDB operational effectiveness based on the four ratings above*

## **Chapter 4: Lessons and recommendations**

*Lessons learned should derive in part from the performance rating pattern and an analysis of their drivers, particularly in the case of those indicators rated better or worse than satisfactory. They should be concise, prescriptive and placed in the context of each material issue encountered in the evaluation. As relevant they should relate the experience of the evaluated operation to the pattern of past lessons in the country or sector.*

*The point of view and selectivity should focus on what AfDB might have done to obtain better results from the operation.*

*Lessons learnt should be formatted in a four question format:*

- *What was expected at appraisal?*
- *What actually happened?*
- *What went wrong or particularly well?*
- *What did we learn?*

**Appendix A: Rating form for Performance Dimensions and Indicators**

Detailed rating assessments should be filled into this form, which will constitute an annex to the SER for detailed information. The findings, ratings and explanations should be summarised in the relevant sections of the report.

In the standard form, generic sub-dimensions and indicators are provided. However, for assessment of individual projects, the form should include the sub-dimensions/indicators specified for that project in the investment proposal/ASRs (or if this has not been done, based on a qualified analysis of which outcomes could be expected).

For details on performance dimensions, sub-dimensions indicators and rating see Annex I of the Manual.

<b>Performance dimension</b>	<b>Stated in investment proposal (or latest change)</b>	<b>Situation at evaluation (findings)</b>	<b>Rating</b>	<b>Comments on rating/ Reasons for discrepancies between investment proposal and evaluation</b>
<b>A. Business Success</b>				
Financial rate of return				
(State other specific indicators for the project)				
<b>Overall Business Success Rating</b>				
<b>B. Development Outcome</b>				
The country's private sector development - (state indicators)				
The country's enabling environment development - (state indicators)				
Growth in the economy - ERR or average growth in gross profit up till SER				
The country's living standards				

- (state indicators)				
Environmental and social sustainability - Compliance with the AfDB's standards at appraisal and at evaluation				
<b>Overall Development Outcome Rating</b>				
<b>C. AfDB's Investment profitability</b>				
Loan repayment or profit contribution				
(State other specific indicators for the project)				
<b>Overall Investment profitability Rating</b>				
<b>D. AfDB's Operational Effectiveness</b>				
Screening, appraisal and structuring work - (state indicators)				
Monitoring and supervision - (state indicators)				
AfDB's role and contribution: - The rationale of AfDB's investment - AfDB's additionality - AfDB's catalytic role - Relevance of safeguards				

- Support to the project since inception - Client satisfaction				
<b>Overall Operational Effectiveness Rating</b>				

**FORMAT FOR SER EVALUATION NOTE**

Project Number:

Project Title:

Country:

Sector:

<b>Validation Dimension</b>	<b>Rating (4-point scale)</b>	<b>Remarks</b>
<b><i>A. Validation of analysis parts</i></b>		
1. Adequacy of analysis of project objectives, expected results and formulation (including the indicators/benchmarks, consistency with appraisal and subsequent revision).		
2. Adequacy of analysis of project implementation and status as well as project context.		
3. Soundness of judgements on project's business success.		
4. Soundness of judgements on project's development outcomes (including adequacy of analysis of environmental and social sustainability).		
5. Soundness of judgements on AfDB's investment profitability.		
6. Soundness of judgements on AfDB's operational effectiveness.		
<b><i>B. Validation of overall conclusions</i></b>		
7. Responsiveness of the SER to its scope.		
8. Reliability of the overall analysis.		
9. Impartiality and consistency in individual indicator judgements.		
10. Consistency of performance dimension ratings with individual rating components.		
11. Appropriateness and completeness of conclusions,		

identified lessons and recommendations.		
<b>C. Other issues</b>		
13 (Specify issue)		
<b>D. Overall rating of the SER</b>		
<b>OPEV and OPSD agree on project performance ratings:</b>		<b>Yes/No</b>
<b>If no, indicate reasons for disagreement:</b>		
<b>If no, OPEV's suggestion for project rating and individual ratings (incl. justification):</b>		
<i>Performance dimension/indicator</i>	<i>OPEV's Rating</i>	<i>Justification for adjustment</i>
<b>Conclusion:</b>		
<b>Follow-up action/decision:</b>		
<b>Priority of Project for Impact, Sector, Country or Thematic Evaluations (tick relevant)</b>		
Project is an adjustment operation		<input type="checkbox"/>
Project is the first of its type in the (sub-)sector		<input type="checkbox"/>
Project is part of a series and is suitable for cluster evaluation		<input type="checkbox"/>
Project has innovative, is large or complex		<input type="checkbox"/>
Project highly successful or unsuccessful		<input type="checkbox"/>
Project has high priority for impact evaluation		<input type="checkbox"/>
Thematic or special evaluation studies (specify)		<input type="checkbox"/>

A **four-point scale** is to be used for the SER Evaluation Note. The four points are defined as follows:

- 4 = Highly satisfactory. No significant qualifications.
- 3 = Satisfactory. Some qualifications, but generally acceptable.
- 2 = Unsatisfactory. Qualifications calling for adjustments/improvements of the<sup>2</sup> SER analysis.
- 1 = Highly unsatisfactory. Significant qualifications calling for significant improvements of the SER analysis/new analysis.