OVE GUIDELINES FOR IMPLEMENTATION OF ECG STANDARDS FOR SCF PROJECTS

I. INTRODUCTION

1.1 This document presents the updated guidelines that will be used by the Sctruture and Corporate Financing Department (SCF) to prepare the Expanded Supervision Report (XPSR). This document was prepared in consultation with SCF and describes the Good Practice Standards (GPS) implementation process. An adequate implementation of this process will help the Bank to comply with the Evaluation Cooperation Group (ECG) - Good Practice Standards (GPS) and to improve good practices in the IDB.

1.2 The Expanded Supervision Report (XPSR) is an important tool to evaluate development results of SCF's project operations. The Inter-American Development Bank (IDB) relies on XPSRs findings to: i) analyze the performance of completed projects, ii) assess how well SCF's projects meet the mandate and policies of the Bank, and iii) identify lessons that will contribute to avoid outcome shortfalls and improve the screening, structuring and supervision of future operations.

1.3 Under the new Development Effectiveness Framework for SCF projects (DEF-SCF) (GN-2473-1), the XPSR is prepared based on basic monitoring reports already in place – Project Supervision Reports (PSRs) – and additional information requirements such as: the achievement of development outcomes, environmental performance, contribution to private sector development, IDB's work quality, IDB's financial and non-financial additionality and lessons learned.

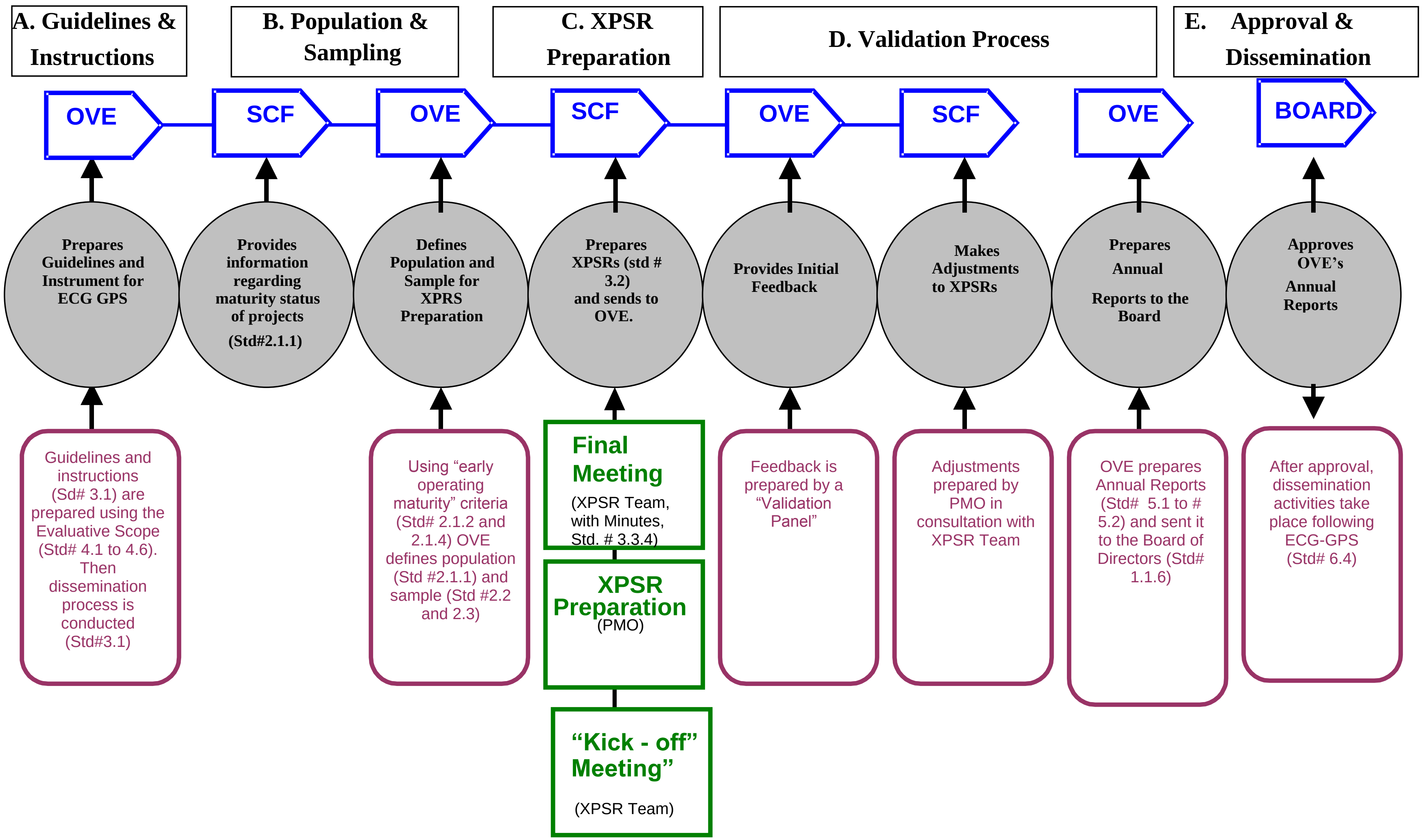
II. THE GPS IMPLEMENTATION PROCESS

2.1 GPS implementation is defined as the process of assessing the performance of completed projects through a systematic analysis of their outputs and outcomes against expected results. The GPS implementation considers financial results and economic benefits of projects as well as the IDB/SCF performance. This process provides a system of accountability of project outcomes for Managers, the Board of Directors and stakeholders.

2.2 This process involves many actors such as: SCF Management, SCF Staff involved in the operation process - including support departments and units-, OVE and SCF clients.

2.3 This process comprises several steps (see flowchart below) including: preparation of guidelines and instructions; definition of population and sampling; XPRS preparation; OVE validation and results dissemination.

Flowchart - The GPS Implementation Process



A. Guidelines and instructions

2.4 **OVE is the Central Evaluation Department (CED) of the IDB (Std.# 1.1 through 1.2).** The CED prepares, refines and disseminates instructions for the implementation of the ECG standards (Std.# 3.1.1). The guidelines include rating guidelines with benchmarks and standard reporting templates (Std.# 3.1.2).

B. Population, coverage and sampling Process

a. Population

2.5 The population from which the investments to be evaluated each year are to be drawn consists of the projects that will have reached "early operating maturity".during the year.

2.6 Regarding non-financial market operations, a project reaches "early operating maturity" when a) the project financed will have been substantially completed; b) the project financed will have generated at least 18 months of operating revenues for the company and c) SCF has received at least one set of audited annual financial statements covering at least 12 months of operating revenues generated by the project.

2.7 Regarding financial market operations, where the principle objective is to assist identifiable capital expenditure sub-projects (rather than to contribute to institutional development or institution building), a project reaches "early operating maturity"after the elapse of at least 30 months following the final material disbursement for sub-loans, i.e., ignoring disbursements for small follow-up investments in existing client companies and disbursements to cover management fees or other expenses of investment funds.

2.8 .The project population includes all disbursed (including partially cancelled) investments, whether still active or already closed (paid-off, sold or written off), that have reached early operating maturity. The population also includes investments already closed, even if they never reached early operating maturity.

2.9 Excluded from the population are dropped and cancelled investments, very small investments made under special promotional programs (e.g. direct investments in small businesses that are evaluated on a program basis through an OVE special study), subscribed rights offerings and investments undertaken to help finance cost overruns on projects previously financed by SCF.

2.10 The projects that have not yet reached early operating maturity are excluded from the current evaluation year's population and rolled forward for inclusion in the population in a future year when they will have reached early operating maturity.

2.11 Projects are included in the population from which the sample for evaluation is drawn only once, i.e. only for the year in which they will have reached early operating maturity.

b. Coverage

2.12 Taking into consideration information on project maturity status provided by SCF, OVE determines the population from which the investments to be evaluated each year are to be drawn. The XPSRs (with XPSR-As) are prepared for 100% of year's project's population (as defined above).

2.13 For signed projects that were cancelled before a disbursement took place, the Team leader prepares the Lesson Learned Memorandum (LLM) within 3 months of the cancellation. The LLM should describe, if any, lessons learned and reasons of the cancellation. OVE reviews the LLM to identify important lessons learned from cancelled projects.

2.14 The timing of evaluation of impaired projects is delicate because the Bank tries to exit from impaired projects at the least possible cost and the evaluation might interfere with ongoing recovery work. Thus, SCF will seek advice from the Legal Department (LEG) before engaging in any evaluation work that involves contact with the project company. In case LEG does not recommend such a contact, an Internal XPSR desk review type might be prepared relying on internal and other sources of information and stating which sources were not contacted.

C. XPSR preparation

2.15 The preparation of the XPSR is the responsibility of the Development Effectiveness Officer with participation of Investment Officer (IO) and Portfolio management Officer (PMO) responsible for the execution and supervision of the project. The Infrastructure and Environment Sector (INE) will assist project evaluation teams to complete the Environmental and Social Effects sections.

2.16 SCF and OVE agree on a preparation's schedule designed to spread the review load throughout the program year and allow OVE to complete the annual review until the completion of the program year.

2.17 **The XPSR Structure is composed of six sections:** (i) Staff Information; (ii) Statistical Information; (iii) Performance dimension; (iv) Lessons Learned; (v) Management Review Meeting; and (vi) Annexes

(i) XPSR Staff Information

2.18 The XPSR is a key instrument to present the results the project has achieved and to ensure its sustainability and to define lessons learned. Thus, its preparation requires a highly participatory process based on the interaction of many actors and not only the participation of a single project member. The research for XPSRs draws from a file review; discussions with available staff involved with the operation since its inception; independent research (e.g. on market prospects); a field visit to obtain company managers' insights and to the project site to observe and assess outcomes; and discussions with parties who are knowledgeable about the country, company and project (e.g. IIC/IDB specialists, company employees and auditors, suppliers, customers, competitors, bankers, any relevant government officials, industry associations, and local NGO's).

2.19 In addition, the standard transmittal memo on the XPSRs executed by SCF's staff incorporates the approval (or electronic check-off) by the responsible operations department manager and, if relevant, cites disagreements by other departments, e.g., technical, environmental, economics and syndications.

2.20 To provide transparency with respect to field visits, the XPSR transmittal memo provides information on when field visit took place and who (i.e. representatives of which departments) participated in the field visit.

(ii) Statistical Information

2.21 **The XPSR should be able to optimize the use of existing information readily available from other monitoring systems**, such as: PSR, the Loan Management System (LMS), and the PRIS System. Part of the data can be automatically generated from these systems while the remaining data should be provided by the evaluation team.

(iii) Performance Dimensions

2.22 The XPSR evaluates four (4) Performance Dimensions using nine (9) performance areas with quantitative and qualitative standard elements , complying with GPS requirements and the DEF-SCF (see Table 1)

Table 1: Performance Dimension and Standard Ratings

Performance Dimension	Performance Areas (Std. # 4.1)
Project Development Outcome (Std. #4.1)	Project Contribution to Company Business Success (Std. 4.3.2)
	Project Contribution to Economic Development (Std. #4.3.10)
	Project Environmental and Social Effects (Std.# 4.3.16)
	Project Contribution to Private Sector Development (Std. #4.3.8)
IDB Investment's Profitability (Std. #4.1)	Project Gross Profit Contribution to IDB (Std. #4.4)
IDB's Additionality (Std. #4.1)	Financial Additionality (Std. #4.5) Non-Financial Additionality (Std. #4.5)
IDB's Work Quality (Std. #4.1)	Screening, Appraisal and Structuring Work (Std. #4.6.1)
	Monitoring and Supervision Quality (Std. #4.6.2)
	Role and Contribution – IDB's strategic Objectives (Std.# 4.6.3)

2.23 Each of the performance dimensions and standard indicators are assigned to a rating according to a matrix that uses a standard four-point scale for each indicator rating. The scale ranges are (1) Unsatisfactory, (2) Partly Unsatisfactory, (3) Satisfactory, (4) Excelent.[4]

(iv) Lessons Learned

2.24 The XPSR should identify important lessons for improving SCF projects' development outcome, additionality, profitability and work quality. The lessons may be positive - things that worked well and could be repeated - or negative - mistakes that should be avoided. The lessons should be concise, prescriptive, and placed in the context of a material issue that was encountered in the evaluation so that its relevance to new operations can be determined easily, on a stand-alone basis.

(v) Management Review Meeting

2.25 **The process includes a Management Review Meeting.** For XPSRs recommended by OVE, the relevant SCF's vice president, central portfolio manager, credit manager or other manager at a level higher than the responsible officer and his or her manager chairs a review meeting. This meeting should be attended by the XPSR team and their managers, OVE, and representatives of specialist departaments as relevant. Operations staff responsible for the operation at entry will be invited to attend the review meeting and/or comment on the XPSR's findings.

2.26 The Review Meetings envisaged under GPS 3.3.4 aim at (a) ensuring that management--particularly management responsible for new business--is exposed to the results of past operations and has an opportunity to explore what can be learned and (b) ensuring that staff responsible for new business, supervision and preparation of the XPSR are put in a position where they have to respond directly to management. These Review Meetings constitute the end of the self-evaluation exercise. The minutes from these meetings should be incorporated as an Annex of the XPSR.

(vi) Annexes

2.27 The XPSR Annexes are composed by the following documents:

1. **Management Review Meeting Minutes.**
2. **Survey to Borrowers.** IDB values the feedback from clients greatly on how they consider the IDB has performed. Client's feedback should be incorporated in the evaluation reports.
3. **Financial and Economic Details**. This refers to further information, quantitative or qualitative, illustrating and supporting project results. Also, the additional information section includes details of the financial and economic rate of return estimates as well as transparent assumptions and cash flow statements (Std. #4.7.1).

[4] The Rating Methodology is explained in Chapter III

4. **ESHS summary.** The XPSR includes an attachment providing, for each safeguard dimension addressed in the IDB's environmental and social guidelines, a comprehensive summary of environmental, worker health and safety, and social outcome compliance information with sufficient evidence from a field visit and/or client reporting to support the assigned outcome and related IDB's work quality ratings. This attachment provides the basis for review and independent verification of the XPSR's judgments and conclusions.

D. Validation process

2.28 **OVE conducts a validation of the results of each project evaluation,** by reviewing all XPSR prepared by SCF to verify scope responsiveness, evident reliability of the analysis, impartiality and consistency in ratings judgments, and appropriateness and completeness of the identified lessons, and then, preparing a XPSR Addendum (XPSR-A) that records its independent judgments on the report's quality in relation to the guidelines, assigned ratings and lessons. Following preparation of each draft XPSR-A, OVE reviews with the XPSR team and its manager the basis for its judgments where its ratings differ from those in the final edition XPSR.

2.29 At the end of the program year and prior to submitting its annual review, OVE sends a ratings validation variance memo to the responsible senior operations manager, with copies to the relevant XPSR teams and their managers.

E. Approval and dissemination

2.30 **OVE should include the results of the XPSR validation in its Annual Report submitted to the Board of Directors.** Following GPS (std. #6.1), OVE will report on the results derived from the performance rating patterns for the projects reviewed and lessons learned. These lessons will be added to IDB on-line best practices database, by publishing in the Lessons Learned Retrieval Network (LERN) system.[1]

2.31 In order to protect client company confidentiality (Std. #6.4.1), OVE does not disclose individual evaluation reports (Std.#6.4.2). The IDB disclosure policy for evaluation projects should be explicit. The dissemination process should be based on the Bank Information Disclosure Policy (OP-102).

III. THE RATING METHODOLOGY

3.1 This section describes the rating methodology that should be applied during the SCF evaluation and OVE validation exercises. The XPSR evaluates four Performance Dimensions (std. #4.1) (A) Project Development Outcome, (B)

[1] SCF and OVE could arrange for another mechanism to be used to disseminate lessons learned if this system is considered not appropriate.

IDB's Investment Profitability, (C) IDB's Additionality and (D) IDB's Work Quality, rated according to benchmarks that include quantitative and qualitative standards ratings. Outcomes for each of the indicators are assessed on a "with versus without project" basis (std 4.2.5) and should take into consideration the sustainability of the results (std 4.3.1).

A. Project Development Outcome

3.2 For the Project Development Outcome dimension, the overall rating is constructed by measuring four performance areas: (1) Project Contribution to Company Business Success (Std. #4.3.2); (2) Project Contribution to Economic Development (Std. #4.3.10); (3) Project Environmental and Social Effects (Std. #4.3.16); and (4) Project Contribution to Private Sector Development (Std. # 4.3.8). Each performance area is rated based on following specific benchmarks and ratings (Tables 2 to 6).

1. Project Contribution to Company Business Success

3.3 **At the company level, the analysis of the project development outcome is partly based on the project contribution to the company business performance comparing with standard benchmarks** (see Table 2), measured primarily by the real after-tax returns. Secondarily, the analysis is also based on the project's contribution to other business goals articulated at approval and the project company's (or intermediary's) prospects for sustainability and growth.

a. **For capital expenditure projects**: the project's after-tax real financial rate of return (FRR) is compared with the company's weighted average cost of capital (WACC);[2]

b. **For financial markets projects that involve loans to intermediaries in order to finance identifiable capital expenditure subprojects**: the project portfolio's contribution to the after tax real return on the intermediary's equity is compared with the equity returns implied by the FRR benchmarks calculated using the methodology outlined in GPS for capital expenditure projects. [3]

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[2] WACC is the sum of (a)(i) the average after-tax cost of the company's debt multiplied by (ii) the company's debt as a percentage of its debt plus equity; plus (b)(i) the cost of the company's equity multiplied by (ii) the company's equity as a percentage of its debt plus equity; minus (c) inflation rate. The cost of the company's equity is assumed to be the average nominal pre-tax cost of the company's debt plus a 350 bp equity premium.

[3] If cost accounting data are available, the information needed to estimate the incremental return on the intermediary's equity can be derived from the intermediary's cost accounting system. When cost accounting data are not available, which will normally be the case, SCF's or OVE's staff can help the financial intermediary develop rough ad hoc estimates of the rate of return. The after-tax real return on equity is calculated from (i) the actual (or typical) spreads and other charges on sub-loans financed by the SCF's loan, (ii) the principal amounts to which these charges would apply each year, (iii) write-offs and expected write-offs (i.e., end of projection period loss provisions) on sub-loans financed by the SCF's loan, (iv) administrative expenses, based on cost accounting data, ad hoc estimates, or educated guesses, e.g., as

c. **For all other projects** (i.e., investments not targeted at specific capital expenditure projects, investments in existing companies where the incremental costs and benefits attributable to the operation cannot be quantified, and investments in financial markets operations that do not finance identifiable capital expenditure sub-projects): the time-adjusted return on invested capital in real terms (ROIC) is compared with the company's WACC. The ROIC is based on i) the initial book value of the company as a whole (including debt and equity), ii) the annual costs and benefits for the company as a whole, iii) adjustments for increases or reductions in debt and paid-in-share capital, iv) inflation, and v) the terminal book value of the company as a whole (including debt and equity). Theoretically, the initial and terminal values should be based on the market value of the company as a whole (including the company's debt and equity), but since this information is unlikely to be available for many SCF clients, the book value is used as a proxy. The ROIC is calculated only where OVE is convinced that the FRR on the project cannot be calculated.

Table 2: Rating Criteria for Project Contribution to Company Business Success
Non-Financial Market Projects and all Other Projects

Rating	Benchmarks
Excellent	FRR exceeds the average nominal cost of the company's borrowings by 700 bp or more.
Satisfactory	FRR is equal to or greater than the WACC but less than the FRR required for an excellent rating.
Partially Unsatisfactory	FRR is equal to or greater than what the WACC would be if the shareholders earned the same return as the lenders (i.e. if the equity premium were zero, rather than 350 bp over the nominal pre-tax cost of the company's debt) but it is less than the FRR required for a satisfactory rating.
Unsatisfactory	FRR is lower than the FRR required for a partly satisfactory rating (i.e., the shareholders earned less than the lenders).

to how the average administrative costs for the sub-loans financed might compare with the institution's overall average administrative expenses, (v) collateral benefits, based on the intermediary's accounting system, ad hoc estimates, or educated guesses, (vi) adjustments for inflation and for gains or losses, if any, resulting from exchange rate changes, (vii) income taxes, and (viii) the share of the intermediary's equity needed to back the sub-loans, based either on the intermediary's or the BIS' risk weights.

Table 3: Rating Criteria for Project Contribution to Company Business Success
Financial Market Projects Financing Identified Sub-Projects

Rating	Benchmarks
Excellent	The real equity return implied by the FRR required for an excellent rating under GPS 4.3.4. (This benchmark is equivalent to the sum of i) the WACC (as calculated in accordance with GPS 4.3.4) plus a 250 basis points premium (required for an excellent FRR) minus ii) the average after-tax cost of the company's total debt multiplied by the company's debt as a percentage of its total assets plus iii) the inflation rate, all divided by b) the company's equity as a percentage of its total assets.)
Satisfactory	a) at least i) the average nominal pre-tax cost of the company's debt plus ii) 350 basis points but b) less than the benchmark for an excellent rating.
Partially Unsatisfactory	a) at least the average nominal cost of the company's debt but b) less than the benchmark for a satisfactory rating.
Unsatisfactory	Below the average nominal cost of the company's debt.

2. Project Contribution to Economic Development

3.4 The economic development performance of the project is assessed not only by the direct economic costs and benefits to owners and financers, but also by its impact on customers, employees, government, suppliers, competitors, local residents, etc.

a. **For capital expenditure projects:** the rating is assessed based mainly on the project's net quantifiable economic benefits and costs, as measured by the project's real economic rate of return (ERR). For this rating, other documented costs and benefits to customers, employees, government, suppliers, competitors and local residents are also taking into consideration.

b. **For loans to intermediaries to finance identifiable capital expenditure sub-project:** The rating is assessed based on: (i) the economic contribution of the sub-projects; (ii) the contribution made to more efficient capital markets; (iii) other costs and benefits to customers, employees, government, suppliers, competitors and local residents. Since calculating the overall ERR for the package of sub-projects financed would not be practical, the assessment of the economic contributions of the sub-projects is based on a broad judgment on the range within which the combined ERR would be

Table 4: Rating Criteria for Project Contribution to Economic Development

Rating	Benchmarks[4]	
	For Non Financial Market Operations	For Financial Market Operations
Excellent	ERR or EROIC >= 20%	The evaluation report provides acceptable evidence that: (a) The combined ERRs of the sub-projects financed would probably be greater than 20% or (b) (i) the combined ERRs of the sub-projects financed would probably be greater than 10% and (ii) the operation has contributed to the development of a more efficient capital market.
Satisfactory	10% <= ERR or EROIC < 20%	The evaluation report provides acceptable evidence that: (a) The combined ERRs of the sub-projects financed would probably be greater than 10% (but less than 20%), and (b) the operation has not contributed to a less efficient capital market.
Partially Unsatisfactory	5% <= ERR or EROIC < 10%	The evaluation report provides acceptable evidence that: (a) (i) The combined ERRs of the sub-projects financed would probably be less than 10% (but more than 5%) and (ii) the operation has not contributed to a less efficient capital market, or (b) (i) The combined ERRs of the sub-projects financed would probably be less than 5% but (ii) the operation has contributed to the development of a more efficient capital market.
Unsatisfactory	ERR or EROIC< 5%	The evaluation report provides acceptable evidence that: (a) (i) The combined ERRs of the sub-projects financed would probably be less than 5%, or (b) the operation has contributed to a less efficient capital market.

likely to fall (See GPS 4.3.15). The XPSR provides information to substantiate this judgment, including information on portfolio credit or equity performance (e.g., information on non-performing loans, collection rates, write-offs, specific loss provisions, or equity FRRs) and information on distortions that may contribute to a material wedge between financial performance and economic returns.) The assessment of contributions to more efficient capital markets considers (i) positive contributions, such as reductions in market interest rates attributable to the project or developing the supply of, say, venture capital financing or funding for micro, small or medium enterprises, and (ii) negative contributions, such as encouraging an inefficient allocation of capital because of providing sub-loans at subsidized interest rates. Other material, documented costs and benefits to customers, employees, government, suppliers, competitors, local residents, etc.

c. For all other projects[5]: The rating is based mainly on the net quantifiable economic benefits and costs, as measured by the economic return on invested capital (EROIC). It is calculated by the time-adjusted internal rate of return on the economic costs and benefits on a before-after, rather than a with-without, basis but taking into consideration also other material, documented costs and benefits to customers, employees, government, suppliers, competitors, local residents, etc. The EROIC is calculated only where OVE is convinced that the ERR on the project cannot be calculated. It is calculated by adjusting the ROIC (GPS 4.3.7)

[4] When other material, documented costs and benefits to customers, employees, government, suppliers, competitors, local residents, etc are sufficiently material, the rating may be adjusted upward or downward.
[5] The incremental costs and benefits cannot be separately quantified, and investments in financial markets operations that do not finance identifiable capital expenditure sub-projects.

for the factors normally taken into consideration in adjusting the FRR to the ERR, e.g., taxes, subsidies, externalities, etc.

3. Project Environmental and Social Effects

3.5 **The project's development outcome is based partly on the company's overall environmental performance at the time of evaluation. The assessment is based primarily on IDB's specified standards in effect at investment approval.** The analysis of the project development outcome includes: (a) environment, (b) social aspects (c) health and safety issues. [6]

3.6 The analysis takes into account all appropriate environmental and social measures, the quality of the environmental management system and the monitoring of all Environmental, Social and Health and Safety (ESHS) activities, and the extent of public consultation and participation. When the IDB operates through a financial intermediary or a financial operation, it requires the implementation of a set of rules that has to be followed by the Financial Intermediaries (FI) in order to select and finance the investments.

3.7 The analysis also takes into account the positive ESHS effect brought by the project which goes beyond the mere compliance with IDB ESHS policies/requirements, including those related to **impact on climate change** and **impact on target populations**. [7]

Table 5: Rating Criteria for Project Environmental and Social Effects *

Rating	Benchmarks
Excellent	The company (a) meets (i) IDB's at approval requirements (including implementation of the environmental action program, if any) and (ii) IDB's at evaluation requirements; and (b) has either (i) gone beyond the expectations of the environmental action plan or (ii) materially improved its overall environmental performance (e.g., through addressing pre-existing environmental issues) or (iii) contributed to a material improvement in the environmental performance of local companies (e.g., by raising industry standards, acting as a good practice example, etc.)
Satisfactory	The company is in material compliance with IDB's at approval requirements (including implementation of the environmental action program, if any).
Partially Unsatisfactory	(a) The company is not in material compliance with IDB's at approval requirements (including implementation of the environmental action program, if any) but is addressing deficiencies through on-going or planned actions; or (b) earlier non-compliance (subsequently corrected) resulted in environmental damage that has not been corrected.
Unsatisfactory	: (a) The company is not in material compliance with IDB's at approval requirements (including implementation of the environmental action program, if any), and (b)(i) mitigation prospects are uncertain or unlikely; or (ii) earlier non-compliance (subsequently corrected) resulted in substantial and permanent environmental damage.

[6] "Environment" includes the physical environment and, to the extent covered by the MDB's policies, also includes energy efficiency; the quality of the client's environmental management activities; social, cultural, health and safety impacts; and the extent of public consultation and participation. (Std. #4.3.1.6).
[7] If the relevant information to establish material compliance cannot be obtained, a rating of no opinion possible may be assigned.

(*) Where, after best efforts, the relevant information to establish material compliance (or lack thereof) cannot be obtained, a rating of no opinion may be assigned. A sponsor's failure to report should result in a partially unsatisfactory or unsatisfactory rating only if the sponsor has repeatedly refused to cooperate on this issue.

4. Project Contribution to Private Sector Development

3.8 **At the level of the project contribution to private sector development performance**, the analysis takes into account the project contribution (positive or negative) to competition, market expansion, private ownership, technology and know-how transfer, demonstration effect from innovation, corporate governance, legal and regulatory framework, and/or impact on physical or financial market infrastructure.

3.9 In assigning ratings for this standard, the following factors may be considered:

a. *Competition*: The project contributes to greater efficiency, quality, innovation or customer orientation of other suppliers through competitive pressures or contributes to restrictions on competition, e.g., by increased protective tariffs, cartels, etc.

b. *Market expansion*: Expansion of markets through the project entity's interactions with suppliers (backward linkages) and customers (forward linkages) and through contributions to the integration of economic activities with the national or international economy.

c. *Private ownership and entrepreneurship*: Significant increase or consolidation of private provision of goods and services and support for entrepreneurial initiative; or weakening of support for private ownership and entrepreneurship due to allocation by a financial institution of resources to purchases of government securities or loans to state-owned enterprises.

d. *Frameworks for markets* (institutions, laws and policies that promote market functioning and efficiency): Creation or strengthening (or weakening) of public and private institutions that support the efficiency of markets; improvements to (or weakening of) the functioning of regulatory entities and practices; contributions (positive or negative) to government policy formation and commitment, promoting competition, predictability and transparency; contributions to laws that strengthen (or weaken) the private sector and an open economy.

e. *Development of financial institutions and financial markets*: Contributions (positive and negative) to the development of sustainable financial institutions and the financial markets in which they operate (including creation of new fund management companies to manage the MDB-supported investment fund, creation of new fund management companies by staff from the management company responsible for the MDB-sponsored fund, and creation of subsequent investment funds); improved financial strength in sector (e.g., by improving asset-liability management); pioneering listing on stock exchange or significant broadening of listed value; first-of-a-kind financial instrument in local market; greater resource mobilization; and improved allocation efficiency.

f. *Transfer and dispersion of skills*: Project contributes to significant upgrading of technical and managerial skills beyond the project entity; introduction of new technology or know-how, including financial know-how.

g. *Demonstration effects* (spread of new behaviors and activities): Demonstration of replicable products and processes that are new to the economy; new investments stimulated by the project; demonstration of ways of successfully restructuring companies and institutions; demonstration of new ways and instruments to finance private sector activity.

h. *Standards for corporate governance and business conduct*: Improvements in (or weakening of) standards, e.g., with respect to accounting standards, disclosure standards, risk management standards and the company's governance quality, reputation and business practices (including corruption) as a positive (or negative) corporate role model and quality investment asset.

i. Development of physical infrastructure used by other private parties

Table 6: Rating Criteria for Project Contribution to Private Sector Development

Rating	Benchmarks
Excellent	The project a) made substantial contributions to the country's private sector development, development of efficient capital markets and b) had virtually no negative impacts in this respect.
Satisfactory	The project a) contributed to the country's private sector development, development of efficient capital markets, b) had a clear preponderance of positive aspects in this respects, but c) did not meet the requirements for an Excellent rating.
Partially Unsatisfactory	The project had mainly negative impacts on the country's private sector development, development of efficient capital markets, but the negative impacts are not expected to be of long duration or broad applicability.
Unsatisfactory	The project had substantial negative impacts on the country's private sector development, development of efficient capital markets and these impacts are likely to be widespread, of long duration, or both.

5. Overall Project Development Outcome Rating

3.10 The results of the rating of the four performance areas (Tables 1 to 6) are used to create an overall project development outcome rating. (Table 7)

Table 7: Overall Project Development Outcome Rating

Rating	Benchmarks
Excellent	A project with clearly positive development impacts, without any flaws. This type of projects could be used to illustrate the contribution made by the IDB to illustrate its contribution to the private sector development.
Satisfactory	A project which may have some shortcomings, but with a clear preponderance of positive aspects.
Partially Unsatisfactory	A project with either minor shortcomings across the board, or some significant shortcomings in one area, which outweighs other generally positive aspects.
Unsatisfactory	A project with largely negative aspects, clearly outwrighing any positive aspects.

B. IDB Investment's Profitability

3.11 **The rating for the IDB Investment's Profitability is based on the investment profit contribution to the IDB (Std #4.4). The rating is applied following the Good Practice Standards.** The rating is based on the comparison between the investment's gross profit contribution[8] and rating benchmarks set based on a minimal satisfactory expected performance at-approval. (Table 8).

3.12 The rating for "Good Practice" of the IDB Investment's Profitability is based on the comparison between the Investment Gross Profit Contribution and the minimal satisfactory expected performance at-approval.

Table 8: Good Practice: Project Gross Profit Contribution to the IDB

Rating	Benchmarks
Excellent	(i) The IDB/SCF loan has been performing very well; (ii) Based on the loan credit risk classification; there is clear evidence that the loan is expected to be paid as scheduled.
Satisfactory	(i) The IDB/SCF loan is expected to be paid as scheduled; or (ii) the loan is prepaid and the IDB/SCF has received at least 65% of the interest expected over the original life of the loan; or (iii) loan has been rescheduled and is expected to be paid as rescheduled with no loss of originally expected income; or (iv) All fees are expected to be received, and IDB/SCF guarantee is not called, or called but expected to be fully repaid in accordance with the terms of the guarantee agreement. There is indication that debt service payments to SCF will be on time.
Partially Unsatisfactory	(i) The IDB/SCF loan is prepaid and SCF has received less than 65% of the originally expected interest income; or (ii) loan has been rescheduled, or guarantee is called and, in either case, SCF expects to receive sufficient interest income to recover all of its funding cost but less than the full dollar margin originally expected. If all payments to SCF are on time, but there is doubt whether payments can remain on time in future.
Unsatisfactory	(i) The IDB/SCF loan is in non-accrual status; or (ii) The IDB/SCF has established specific loss reserves; or (iii) loan has been rescheduled but SCF does not expect to recover 100% of its loan funding cost; or (iv) The IDB/SCF is expecting a loss on its guarantee or risk-management facility or (v) The project has been partially "written off".

[8] Gross Profit Contribution is equal to Interest Income minus Financing Cost and Loss Provisions.

C. IDB's Additionality

3.13 This dimension measures the value that the IDB's participation added to the development impact of the project, including enhancing the sustainability of a project. The performance areas are financial additionality and non-financial additionality.

1. Financial Additionality

3.14 The financial additionality of the IDB is assessed based on the following two elements:

a. Whether without the Bank, the client could have been able to obtain sufficient financing from private sources on appropriate terms. Judgements on this indicator consider pricing (including additional costs arising from SCF's condititions that would not be imposed by private investor), tenor, grace period, currency and timeliness, i.e. the availability of financing without unduly delaying the project.

b. Whether, without the Bank, the client could be able to obtain mobilization of other or paralell financing, taking into consideration the situation of the syndication market.

2. Non- Financial Additionality

3.15 The non-financial additionality of the IDB is assesse based on the following elements:

a. Whether the Bank, because of its being an MDB, was needed to reduce risks and provided comfort, i.e., improved the investor's perceptions of the risks involved, and, thus, encouraged the investors and lenders to proceed.

b. Whether the Bank was needed to bring about a fair, efficient allocation of risks and responsibilities, e.g., between the public sector and the private investors;

c. Whether the Bank improved the venture's design or functioning in business, developmental, social or environmental terms, e.g. through the introduction of improved environmental, social, health and labor and corporate governance standards.

Table 9: IDB's Additionality

Rating	Benchmarks
Excellent	It is clear that (a) the project would not have gone ahead without IDB *or* (b) absent IDB, (i) it would have entailed a materially unfair or inefficient allocation of risks and responsibilities or (ii) it would have been materially weaker in business, developmental, social or environmental terms.
Satisfactory	It is likely that (a) the project would not have gone ahead without IDB *or* (b) absent IDB, (i) it would have entailed an unfair or inefficient allocation of risks and responsibilities or (ii) it would have been weaker in business, developmental, social or environmental terms.
Partially Unsatisfactory	It is likely that (a) the project would have gone ahead without IDB *and* (b) IDB made no contribution to (i) a fair or efficient allocation of risks and responsibilities and (ii) the business, developmental,, social or environmental performance of the project.
Unsatisfactory	It is clear that (a) the project would have gone ahead without IDB *and* (b) IDB made no contribution to (i) a fair or efficient allocation of risks and responsibilities and (ii) the business, developmental, social or environmental performance of the project.

D. IDB's Work Quality

3.16 For the IDB/SCF's work quality dimension, the rating is constructed based on three performance areas: (1) Screening, Appraisal and Structuring work (Std. #4.6.1); (2) Monitoring and Supervision Quality (Std. #4.6.2); and (3) Role and Contribution of the IDB (Std. #4.6.3).

3.17 Assessments of the IDB's work quality should be made independently of the ratings assigned for development outcomes and IDB's investment profitability. These assessments, which are benchmarked against corporate good practice, reflect the quality of the IDB's contributions to good or bad outcomes, not the good or bad outcomes themselves.

1. Screening, Analysis and Structuring Work

3.18 The Screening, Analysis and Structuring Work refers to how well SCF carried out its work prior to financial closing of the investment. It assesses how well the project's main risks were identified and adequately mitigated; how reasonable was the project document's preparation time; how well the market, sponsor, and company's performance were analyzed.

2. Monitoring and Supervision Quality

3.19 Monitoring and Supervision Quality Standard refers to how well SCF performed in addressing the company's reporting and monitoring results, and whether SCF was able to detect emerging problems and to respond in a timely manner with effective intervention. This performance area also includes the quality of the environmental supervision.

Table 10: Screening, Analysis and Structuring Work

Rating	Benchmarks
Excellent	**IDB/SCF front-end work could serve as a best-practice example.** Issues to take into account: (i) Risk mitigations mechanisms were successfully enforced. (ii) All events affecting the project were considered during screening. (iii) Preparation time was below the Bank average.
Satisfactory	**IDB/SCF front-end work follows good practice standards** Issues to take into account: (i) Risk mitigation mechanisms were successfully enforced. (ii) Some delays occurred during the preparation process.
Partially Unsatisfactory	**There was a material shortfall in at least two important areas.** Issues to take into account: (i) Not all Bank risk mitigation mechanisms were successfully enforced (ii) Some delays occurred during the preparation process. .
Unsatisfactory	**There were material shortfalls in several areas or a glaring mistake or omission bordering on negligence.** Issues to take into account: (i) Risk mitigations mechanisms were not available or could not be enforced (ii) Major delays occurred during project preparation.

3. Monitoring and Supervision Quality

3.20 Monitoring and Supervision Quality Standard refers to how well SCF performed in addressing the company's reporting and monitoring results, and whether SCF was able to detect emerging problems and to respond in a timely manner with effective intervention. This performance area also includes the quality of the environmental supervision.

Table 11: Monitoring and Supervision Quality

Rating	Benchmarks
Excellent	**IDB/SCF has always kept itself promptly and fully informed about the project and company performance (credit status of the projects) and used this knowledge proactively.** Other issues to take into account: (i) The project has always been in compliance with its reporting covenants.
Satisfactory	**If IDB/SCF has kept itself sufficiently informed to react in a timely manner to any material change in the project and company performance (credit status of the project) and took timely action where needed.** Other issues to take into account: (i) the project has been in non-compliance of its reporting covenants for less than 6 months.
Partially Unsatisfactory	**IDB/SCF's supervision was insufficient to monitor the project and company performance (credit status of the projects) and/or did not take timely and appropriate action** Other issues to take into account: (i) the project has been in non-compliance of its reporting covenants for more than 6 months.
Unsatisfactory	**IDB/SCF missed material developments, and/or did not use information to intervene timely and appropriately.** Other issues to take into account: (i) the project has been in non-compliance of its reporting covenants for more than 12 months.

4. Role and Contribution of the IDB – IDB's strategic objectives

3.21 The Role and Contribution of the IDB refers to the quality of the Bank contributions from inception to evaluation. **This performance area refers to the compliance with basic operating principles and the coherence of the operation with IDB's strategic objectives, including types of countries, clients, instruments as well as its consistency with the IDB's country/regional strategies. This performance area also includes contributions to client capacity building and its client's satisfaction with the IDB's service quality.**

Table 12: Role and Contribution of the IDB

Rating	Benchmarks
Excellent	**(**i) The project was **fully** in compliance with the Bank's basic operating principles, (ii) the project fit **substantially** with the IDB's strategic objectives; iii) the clients were very satisfied with the IDB's Quality Work.
Satisfactory	(i) The project was **materially** in compliance with the Bank's basic operating principles, (ii) the project fit **mostly** with the IDB's strategic objectives; iii) the clients were satisfied with the IDB's Quality Work.
Partially Unsatisfactory	(i) There was **some non-compliance** with the Bank's basic operating principles; (ii) the project **partially** fit with the IDB's strategic objectives; iii) the clients were not satisfied with the IDB's Quality Work.
Unsatisfactory	(i) There was **material non-compliance** with the Bank's basic operating principles; (ii) the project **did not fit** with the IDB's strategic objectives; iii) the clients were unsatisfied with the IDB's Quality Work.

5. Overall IDB's Work Quality Rating

3.22 The **Overall** IDB's Work Quality rating gathered the three performance areas explained above (Tables 10, 11 and 12). The rating criteria are shown in the Table 14.

Table 13: Overall IDB's Work Quality

Rating	Benchmarks
Excellent	IDB's front-end work as well as supervision and monitoring can be used as a best practice example. The project fully met the strategic objectives of IDB..
Satisfactory	IDB's front-end work as well as supervision and monitoring were materially up to a high professional standard. The project mostly met the strategic objectives of IDB.
Partially Unsatisfactory	There was a particular shortfall in IDB's front-end work or supervision and monitoring. The project partially met the strategic objectives of IDB. .
Unsatisfactory	There were material shortfalls in IDB's front-end work or supervision and monitoring, which led (or could have led, under less favorable circumstances) to a less-than-satisfactory development or investment outcome. The project did not meet the strategic objectives of IDB.