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<tr>
<th>ABBREVIATIONS</th>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>ADD</td>
<td>additionality</td>
</tr>
<tr>
<td>CAR</td>
<td>capital adequacy ratio</td>
</tr>
<tr>
<td>CTL</td>
<td>Controller’s Department</td>
</tr>
<tr>
<td>DMC</td>
<td>developing member country</td>
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<tr>
<td>ECG</td>
<td>Evaluation Cooperation Group</td>
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<tr>
<td>EIRR</td>
<td>economic internal rate of return</td>
</tr>
<tr>
<td>EOM</td>
<td>early operating maturity</td>
</tr>
<tr>
<td>ERD</td>
<td>Economics and Research Department</td>
</tr>
<tr>
<td>EROIC</td>
<td>economic return on invested capital</td>
</tr>
<tr>
<td>ESHS</td>
<td>environmental, social, health, and safety</td>
</tr>
<tr>
<td>FIRR</td>
<td>financial internal rate of return</td>
</tr>
<tr>
<td>FWACC</td>
<td>fund’s weighted average cost of capital</td>
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<td>GPS</td>
<td>good practice standards</td>
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<tr>
<td>IED</td>
<td>Independent Evaluation Department</td>
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<tr>
<td>IEM</td>
<td>Independent Evaluation Mission</td>
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<tr>
<td>NPA</td>
<td>nonperforming assets</td>
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<td>NPL</td>
<td>nonperforming loan</td>
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<tr>
<td>NSO</td>
<td>nonsovereign operation</td>
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<tr>
<td>OCO</td>
<td>Office of Cofinancing Operations</td>
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<td>OGC</td>
<td>Office of the General Counsel</td>
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<td>ORM</td>
<td>Office of Risk Management</td>
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<tr>
<td>OSFMD</td>
<td>Operations Services and Financial Management Department</td>
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<tr>
<td>PPER</td>
<td>project performance evaluation report</td>
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<tr>
<td>PSD</td>
<td>private sector development</td>
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<tr>
<td>PSO</td>
<td>private sector operation</td>
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<tr>
<td>PSOD</td>
<td>Private Sector Operations Department</td>
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<tr>
<td>ROE</td>
<td>return on equity</td>
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<tr>
<td>ROIC</td>
<td>return on invested capital</td>
</tr>
<tr>
<td>RRP</td>
<td>report and recommendation of the President</td>
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<td>RSDD</td>
<td>Regional and Sustainable Development Department</td>
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<tr>
<td>RWA</td>
<td>risk weighted asset</td>
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<tr>
<td>SMEs</td>
<td>small and medium-sized enterprises</td>
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<td>SPD</td>
<td>Strategy and Policy Department</td>
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<tr>
<td>WACC</td>
<td>weighted average cost of capital</td>
</tr>
<tr>
<td>XARR</td>
<td>extended annual review report</td>
</tr>
<tr>
<td>XVR</td>
<td>extended annual review validation report</td>
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I. PURPOSE, PROCESS, AND EVALUATION DISSEMINATION

A. Purpose, Scope, and Organization of NSO Evaluation in ADB

1. The Asian Development Bank (ADB) conducts both sovereign and nonsovereign operations (NSOs). An NSO is defined as an ADB-financed transaction in the form of a guarantee, loan, or equity investment with a subsovereign, state-owned enterprise, other public-private entity, or private sector entity as obligor or investee, normally without direct sovereign indemnity. These guidelines have been prepared to facilitate evaluations of NSOs by the Independent Evaluation Department (IED), which is independent of Management and reports directly to ADB’s Board of Directors.

2. Evaluations are a key part of ADB’s project cycle. They have two main elements: (i) self-evaluations presented in extended annual review reports (XARRs) prepared by the Private Sector Operations Department (PSOD) and regional departments (RDs) for NSOs and other projects, and (ii) independent evaluations of NSOs presented in project performance evaluation reports (PPERs) prepared by IED. PPERs are not prepared by IED for all projects, and IED can validate the XARRs prepared by PSOD and the RDs. PPERs and XARRs contribute to broader IED studies, including country and sector evaluations, thematic and special evaluation studies, and IED’s annual evaluation review. ADB’s performance evaluation framework uses these reports as the basis for strengthening accountability and identifying lessons that can be used to inform strategy and improve the future operations of ADB. IED also reviews draft project proposals for new NSOs to ensure that they reflect the relevant lessons from past evaluations.

3. These guidelines are a step toward harmonizing ADB’s NSO evaluation procedures with those of other multilateral development banks in the Evaluation Cooperation Group (ECG). NSO evaluations will be in line with the Good Practice Standards (GPS) of ECG for private sector evaluations. These PPER guidelines are based on the fourth edition of the GPS adopted by the ECG in 2011, and are expected to be further updated periodically following reviews of the GPS.

4. The guidelines apply to all PPERs for NSOs prepared by IED, as well as all extended annual review validation reports (XVRs).

5. Reports and recommendations of the President (RRPs), which are the proposals and basis for new investment approvals by Management and the Board, discuss the project rationale and objectives and the project’s support for ADBs mandate, strategy, and country and sector policies. RRRPs from 2005 onward include business and development targets with monitoring plans to monitor risks and measure achievement of targets.

6. The project objectives identified at the time of RRP approval provide the basis for evaluating the wider development outcomes and, implicitly, relevance of the project from a historical perspective, and for assessing whether it achieved what it set out to do. The evaluation also reassesses the rationale and objectives from the present perspective, taking into account events that occurred after approval, such as market growth, increasing competition or

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1 Guidelines for preparing XARRs that cover nonsovereign operations are presented in ADB’s Project Administration Instructions. The evaluation rating methodology for XARRs follows these PPER Guidelines.
2 Details on how IED validates XARRs are provided in paras. 20–21.
3 The ECG was established in 1996 with the objective of harmonizing evaluation practices and standards among international financial institutions.
4 The most recent benchmarking review was undertaken by ECG in 2009.
regulation in the industry, a changing environment in the developing member country (DMC), or an evolving ADB policy. The PPER addresses a project’s relevance and performance in light of conditions at the time of approval, and subsequent developments.

7. Performance evaluation using the adopted ECG standards involves assessing and rating NSO projects on the basis of
   (i) development results,
   (ii) ADB additionality
   (iii) ADB investment profitability, and
   (iv) ADB work quality.

8. In addition, PPERs include an assessment of
   (i) identified lessons and their dissemination, and
   (ii) follow-up actions and recommendations.

9. The evaluating team rates the project’s performance for the first four dimensions, and assigns an overall performance rating. The evaluation dimensions and rating standards are identical for PPERs, XARRs, and XVRs, and details on their application are presented in Appendix 1.

B. Selection and Sampling of NSOs for Evaluation

10. Selection of NSOs ready for evaluation is in accordance with the applicable harmonization GPS of ECG and is defined therein as having reached early operating maturity (EOM). The GPS include sufficient operating time and availability of records for mature investments to allow meaningful evaluations. The following criteria for EOM apply, depending on the nature of the project:
   (i) Capital expenditure projects involving direct investment in identifiable assets: minimum 18 months of operating revenues with audited accounts for at least 12 of these months;
   (ii) Institutional investments supporting broad corporate investment programs: minimum 36 months after the final material disbursement;
   (iii) Investments in multiple subprojects via unlisted private equity funds: minimum 36 months after the final material subproject disbursement, and the substantial majority of subinvestments should have been exited;
   (iv) Listed private equity funds: minimum 18 months after ADB’s final material disbursement to the fund, and the substantial majority of subinvestments should have been exited;
   (v) Financial market operations involving financial diversification, refinancing, or short-term financing: minimum 24 months after final material disbursement;
   (vi) Financial intermediation loans: minimum 30 months after final material disbursement;
   (vii) Financial market operations involving trade finance: minimum 24 months following project approval.

11. When IED is preparing annual work plans for conducting reviews, it will (i) consult with PSOD and RDs that have NSOs that will be subjects of XARRs in the coming year, and (ii) identify any sampling procedures for validating XARRs and preparing PPERs. In general, XARRs should be prepared for all projects within 18 months of the projects reaching EOM. IED describes the criteria and sampling methods used to identify its NSO evaluations in its annual evaluation report. While validations are undertaken for all XARRs, projects for in-depth
evaluation will be selected on the basis of purposeful sampling to serve specific evaluative needs such as the potential for learning, input into other high-level evaluation studies, the high profile of a transaction, credit and other risks, the likelihood of replication, or the desirability of balanced country and sector coverage.

C. Client Support to Evaluations

12. In addition to requiring the submission of standard technical and financial reports by nonsovereign borrowers, investees, and intermediaries, ADB ensures in its investment agreements that clients accept and will support its NSO evaluations.

13. During the preparation of a PPER, IED meets with the investee entity, which is given the chance to review the final paper.

D. Approach Papers in the Evaluation Process

14. Before a PPER is prepared, the leader of the independent evaluation mission (IEM) prepares an approach paper. The IEM leader consults with PSOD and other relevant ADB departments in the evaluation process before writing the approach paper and seeking approval of the Director General, IED. The paper highlights the approach and key issues that will be addressed in the evaluation, and will typically include the following information: (i) key issues identified in project documents such as the RRP and XARRs, PSOD monitoring reports, and Office of Risk Management (ORM) reports; (ii) the proposed PPER approach in evaluating the project, time schedule, and details on the support required from investees and intermediaries; (iii) premission questionnaires that will be supplied to the client companies and other related parties; (iv) composition of the IEM team and scheduled tasks, including terms of reference for proposed consultants; (v) a note on other ADB operations, including technical assistance and public sector loans in the country and sector that might justify an evaluation to identify possible synergies with the NSO; and (vi) a budget outline for the input of ADB person-days, cost of travel, and requirements for any external consultants.

E. Format, Peer Review, and Finalization of PPERs

15. The style and format of PPERs should adhere to ADB’s Handbook of Style and Usage. The length of the main text should not normally exceed 18 pages, single-spaced, plus appendixes. Reports reflect the terminology of ADB and PSOD for NSOs and the ECG GPS used for private sector evaluation.

16. A PPER for an NSO should follow the structure outlined in these guidelines and be illustrated in the standard table of contents presented in Appendix 2. Such a structured approach helps ensure consistency between evaluations, and allows users to locate information within the report easily. Nevertheless, there may be some variations in the proposed approach to suit the character of the particular project. While the guidelines aim to assist analysis and report preparation, the final responsibility for preparing the report remains with the evaluators, who need to exercise their best judgment, focus on significant issues, and avoid repetition or mechanical box filling. Reports may quote from or cross-reference other relevant ADB reports with due regard given to disclosure constraints that apply to private sector operations.

17. A draft of the PPER report is initially peer-reviewed within IED and then circulated to heads of departments and offices to seek interdepartmental comments (Appendix 4). The interdepartmental circulation list for the PPER includes
PSOD;
(ii) Strategy and Policy Department (SPD), if the project has policy- or strategy-related issues;
(iii) Regional and Sustainable Development Department (RSDD);
(iv) Operations Services and Financial Management Department (OSFMD), if the project has procurement issues;
(v) Economics and Research Department (ERD), if the project has economic methodological issues;
(vi) Office of the General Counsel (OGC), if the project has legal issues;
(vii) Office of Cofinancing Operations (OCO), if the project uses official cofinancing;
(viii) Controller’s Department (CTL), if the project has disbursement issues;
(ix) Treasury Department, if the project has funding issues;
(x) ORM;
(xi) the RD concerned; and
(xii) the resident mission concerned.

18. PPER drafts are usually sent in full to investors, borrowers, or other sponsors for feedback. Following interdepartmental comments (and, if required, an interdepartmental meeting) and receipt of stakeholder responses, the PPER is updated, edited, finalized, and submitted to the Director General and relevant division head of IED for approval to circulate to Management and the Board.

19. A limited number of copies of the PPER will be printed, and all copies will be numbered. The final PPER will be bar coded and circulated to ADB’s Board of Directors (the Board) and senior management team, with a cover memorandum noting confidentiality and restricted distribution requirements (Appendix 5). The circulation list for the finalized PPER includes:

(i) Board of Directors;
(ii) the Vice President concerned;
(iii) the Vice President Finance and Risk Management;
(iv) the Vice President Knowledge Management and Sustainable Development;
(v) the Vice President Private Sector and Cofinancing Operations
(vi) Directors General or Heads of CTL, ERD, PSOD, RSSD, SPD, OCO, ORM, OSFMD; General Counsel; Treasurer (as required);
(vii) Directors General of RDs concerned; and
(viii) Resident Mission Country Director concerned.

20. Using the referral letter presented in Appendix 6, IED will ask clients to identify items that should be redacted, if any, from the publicly available version of the PPER for reasons of confidentiality, and subsequently prepare a redacted version of the PPER for publication on IED’s website.

F. Review and Validation of Extended Annual Review Reports for NSOs

21. IED validates all NSO XARRs where no PPER is being prepared for that project. The XVR, which is a non-Board information paper, is prepared after an independent review by IED using the evaluation and rating methodology of these guidelines. Detailed guidelines for XVR preparation and the associated template are presented in Appendixes 7 and 8. The XVR is

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5 Sufficient time needs to be included to accommodate a minimum circulation time of 5–10 days for interdepartmental comments, and 15 working days for editing.
finalized by IED after a necessary review by concerned operations departments, and is posted on the IED website in lines with PDP requirements and restrictions.\(^6\)

**G. Reflection of NSO Evaluation Outcome in Annual Reports by IED**

22. In accordance with the GPS of ECG, IED provides full information on the selection, evaluation process, rating standards, and aggregation of evaluation outcomes for NSOs in its operations manual and annual evaluation reviews. This approach is adopted to ensure transparency in the selection of projects for evaluation, and to help determine the resulting confidence levels and sampling errors applicable to the project success rates.

**H. Dissemination and Disclosure of NSO Evaluation Reports**

23. In line with ADB’s disclosure policy, PPERs are made available to clients, stakeholders, and the public after the reports have been approved by the Director General, IED. ADB’s Public Communications Policy identifies some exceptions in the case of evaluation reports for NSO projects.\(^7\) In light of these confidentiality provisions, IED has issued a memorandum that provides, among others, for:

- confidentiality notes on internally circulated evaluation reports on private sector operations, as shown in standard formats for draft and final circulation memorandums (Appendixes 4 and 6);
- review by PSOD and the RD concerned of evaluation report drafts to propose and justify redactions, if any, to ensure that information disclosure will not compromise ADB’s NSOs, including by breach of confidentiality undertakings;
- seeking of advice by IED from OGC on a case-by-case basis to clarify potential legal disclosure concerns;
- referral to the Development Effectiveness Committee to arbitrate if IED and PSOD cannot agree on required deletions or redactions in PPERs;
- forwarding of the report to the borrower or investee, which will be requested to identify material to be redacted for reasons of confidentiality before the document is made public, if any (Appendix 5);
- subsequent posting of summaries of redacted private sector PPERs on the ADB website; and
- numbering and bar coding of all internally circulated evaluation reports on private sector operations, and attachment of appropriate circulation restrictions and price sensitivity warnings on any evaluation reports that concern publicly listed enterprises.

**II. SCOPE AND CONTENT OF NONSOVEREIGN PPERs**

**A. Table of Contents**

24. The standard cover, table of contents, and introductory pages of PPERs are presented in Appendixes 2 and 3. The main text of a PPER is typically 12–18 pages, single spaced, plus appendixes.

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\(^6\) Refer to the memorandum of Director General, IED, dated 27 March 2012, on Follow up on Proposed Changes in IED’s Approach.

\(^7\) ADB. 2011. *Public Communications Policy*. Manila. The policy stipulates that ADB will not publicly disclose confidential information, or information that, if disclosed, would be likely to materially prejudice the commercial and financial interests and/or competitive position of the party that provided the information.
25. The chief elements of each chapter and section heading in a PPER are as follows:

B. Executive Summary

26. The executive summary provides a brief overview of the project in its development and investment environment and business context. This review is followed by a summary of the main evaluation findings, the individual performance ratings, the overall rating, and the main justifications for the derived results. The executive summary concludes by identifying the main issues, lessons, and any follow-up actions. The typical length of the executive summary in a PPER is two pages, including a standard table that presents the main evaluation ratings (template presented in Appendix 9).

C. Chapter I: The Project

27. Typical sections included in this chapter are project background, project features, and progress highlights. The context (i.e., the investment environment and the particular business and development conditions and challenges) forms an essential part of the project background. The length of the chapter should not normally exceed two pages. Any additional details can be provided in appendixes.

D. Chapter II: Evaluation

28. The evaluation procedure is described in this chapter, and ratings standards used in the analysis are presented in Appendix 1.

1. Project Rationale and Objectives

29. This section reiterates and comments on the project rationale and objectives presented at the time of approval. The extent to which the proposed outcome of the project is consistent with the country’s development or policy priorities and strategy, beneficiary needs, and ADB’s country and sector strategies and corporate goals both at appraisal will be assessed. The rationale and objectives are then revisited in light of the development challenges arising from any changes in the investment environment and the business concept, and as seen against current ADB strategies and policies. The section ends with a conclusion on the relevance of the operation and its structure from both historic and current perspectives. The evaluation does not assign a separate rating to the fulfillment of objectives, and the information serves as background to the subsequent evaluations in sections 2–5 below.

2. Development Results

30. Development results are evaluated according to (i) contribution to private sector development (PSD) and other ADB strategic development objectives; (ii) business success; (iii) contribution to economic development (economic sustainability); and (iv) environment, social, health, and safety (ESHS) performance.

a. Contribution to Private Sector Development and ADB Strategic Development Objectives

31. NSO contributions to high-level development impacts are assessed along a probable results chain considering the actual achievement of relevant project outputs and outcomes. For private sector NSO, this assessment reflects how well the investment contributes towards PSD
and other targeted development impacts, and ultimately, towards inclusive growth, environmentally sustainable growth or regional cooperation. For public sector NSO, an assessment of investment contributions to private sector development is optional, if there was no related project objective stated at the time of approval.

32. Many of the (positive and negative) PSD effects within and beyond supported project companies, investee companies or financial institutions relate to the transfer and dispersion of skills, technologies, products, processes, and industry and business expertise; the development of new project approaches and structures; the adoption of new standards for corporate governance and business conduct; innovation; enhanced competition; market expansion; forward and backward linkages; and private ownership and entrepreneurship. Other potential development outputs, outcomes and impacts associated with ADB financing in infrastructure projects, private equity funds, or financial intermediaries include increased sector/industry capacity and efficiencies; other contributions to sector/industry development; increased infrastructure or service provision; improved access to goods and services including through greater outreach and improved pricing; employment generation; environmental improvement effects; or improved connectivity and trade.

33. Many of these project development contributions can be difficult to define and quantify and they are typically evaluated on the basis of structured qualitative analysis, which needs to be backed up with tangible evidence. Checklists to guide the assessment of relevant development results areas of NSO projects and related ratings are presented in Appendixes 10–12. In addition to a range of possible project outputs and outcomes, they cover other potential project contributions to PSD and ADB strategic objectives. The relevant checklist will normally be appended to the report. The overall rating under this rating category should particularly consider and reflect the level of achievement of stated outcomes in the design and monitoring framework (DMF), if the stated DMF outcomes are conducive to the achievement of stated higher-level impacts. The achievement of other outcomes whether intended or not intended, as well as demonstrated positive and negative impacts will also be assessed and reflected in the rating. In general, potential high-level project impacts will be assessed but not considered in the overall development results rating.

b. Economic Performance

34. Project development outcomes are evaluated partly on the basis of their contribution to economic development and growth. The recalculated real economic internal rate of return (EIRR) is a key measure of sustained economic performance. Like the FIRR, economic performance is assessed by revisiting the approval EIRR calculations and assumptions and considering actual performance relative to historical and revised projections. The EIRR calculation can be used in evaluating both greenfield and expansion investment projects where the incremental costs and benefits can be reasonably separated and assessed. For corporate loans or equity investments that are not specifically assigned to particular investment projects, the real economic return on invested capital (EROIC) may be used. Other proxy measures of economic performance can be taken from the approval documents.

35. For private equity funds where the performance of investees can be estimated, the relevant FIRR or return on equity (ROE) should also be adjusted for distortions and externalities.

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8 While the guidelines contain checklists that can cover most types of PSO, these might need to be adjusted for other transactions such as direct investments in industrial and financial institutions with non-SME development objectives, as well as other sectors.
and used as the basis for assessing economic sustainability. For all other financial market projects, a qualitative stakeholder analysis should be carried out, identifying each stakeholder group affected by the project, the positive and negative impacts on them, and a broad judgment of the magnitude and direction (positive or negative) of the impact on each. This should not duplicate impacts already considered under Contribution to PSD and ADB Strategic Objectives.

36. Appendixes 1 and 14 provide further details on the calculation of EIRR and EROIC. General and sector-specific guidelines on economic analysis can be obtained from ADB’s guidelines for economic analysis of projects. If the evaluation report uses a proxy for EIRR, or if it presents qualitative justifications for the economic sustainability rating, an explanation should be provided for why it was not feasible to make an EIRR calculation to help evaluate the project.

c. Environment, Social, Health, and Safety Performance

37. ESHS performance is evaluated in accordance with ADB’s policies and the characteristics of the operation. The evaluation identifies significant impacts of both the project and the remedial measures that are put in place to comply with ADB’s environmental and social safeguards and core labor standards. It provides details on compliance with national legislation, regulations and standards, and other parameters contractually required by ADB, as well as environmental and social management practices that go beyond compliance required by ADB at the time of approval. It then reviews the adequacy of environmental management, involuntary resettlement, and indigenous people safeguards plans or other arrangements, as required, including environmental and social management systems for financial institution-type operations. The quality of ADB’s monitoring with regard to the implementation safeguards measures is also assessed.

38. More comprehensive ESHS performance evaluations involving stakeholder consultations and site visits might be necessary for large private physical infrastructure and industrial projects with significant environmental and safety impacts, notably Category A projects, in particular if there are any indications of negative effects. The evaluation will also identify and assess any critical impacts related to the protection of cultural heritage and affected communities’ health and safety.

39. Appendix 1 provides further details on how the ESHS ratings will apply to an NSO project.

d. Business Success

40. Financial performance is the key condition used to evaluate the business success of NSO projects. Performance is typically assessed by revisiting the approval assumptions and recalculating the project-specific real financial internal rate of return (FIRR) relative to the weighted average cost of capital (WACC).

41. Where the NSO facility is provided in the form of a corporate loan or equity investment that is not specific to a particular investment, or where the incremental cash flows cannot be identified, the real financial return on invested capital (ROIC) may be used as a proxy for FIRR. Other alternative proxies that can potentially be used for funding facilities that are not project-specific include performance measures taken from the approval documents.

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9 ROIC equals the real FIRR on all invested capital in the enterprise, disregarding loan interest and dividend payments.
42. For investments undertaken via financial intermediaries such as private equity funds, which have clearly identifiable financial subproject performance measures, a broad judgment can be provided on the expected range within which the combined FIRR would be likely to fall. Other proxies for investments via financial intermediaries include measures such as the net equity FIRR to investors.

43. For financial sector projects without clearly identifiable subprojects, an assessment should be made of the extent to which the project has reached target market segments where applicable, and of the intermediary’s overall profitability, soundness, and viability. Appendix 13 provides further details on how to assess the financial performance of financial institutions.

44. Appendixes 1 and 14 provide further details on the calculation of the FIRR and ROIC. The FIRR and WACC evaluation standards are generally in line with the GPS defined by the ECG on the harmonization of NSO evaluations.

3. ADB Additionality

45. Additionality is evaluated according to (i) the extent to which ADB finance was a necessary condition for the timely realization of the project, through direct mobilization of funds and/or indirectly by improving the risk perception of other financiers; and (ii) ADB’s contribution to the design of the project to improve the allocation of risk and responsibilities, and to enhance development impact.

46. The rating standards for assessing ADB’s additionality are presented in Appendix 1.

4. ADB Investment Profitability

47. ADB’s investment profitability should be evaluated by comparing the net profit contribution of the project (gross income less financing costs, loss provisions/write-offs, and transaction and administrative costs) with the minimum targeted risk-adjusted returns on capital employed for guarantees, loans, and equity investments. However, current cost-accounting data use standard coefficients for administrative expenses, and hence do not allow the calculation of allocated project transaction costs.

48. In the absence of such data, an acceptable alternative for assessing ADB’s investment profitability for its loans and guarantees is to assess whether their gross profit contribution met at-appraisal expectations. In the case of ADB’s equity investments, ratings consider to what extent realized net capital gains values or net fair value as per international financial reporting standards translate into a real net equity FIRR that exceeds the minimum return requirements defined at approval. The rating standards for assessing ADB’s investment profitability are presented in Appendix 1.

5. ADB Work Quality

49. The review of ADB work quality is independent of the other PPER ratings. The work quality evaluation concerns the following issues: (i) the screening, appraisal, and structuring of the operation; and (ii) monitoring and supervision. This evaluation seeks to determine the magnitude of ADB’s contribution throughout all stages of the project life cycle. The evaluation needs to consider compliance with ADB’s corporate, country, and sector strategies in terms of
addressing particular development challenges, while continuing to meet client satisfaction requirements on service quality.

50. The rating standards for assessing ADB’s work quality are presented in Appendix 1.

6. Overall Assessment

51. The overall rating of the NSO project is derived from by the underlying ratings applied to the four dimensions of an NSO evaluation: (i) development results, (ii) ADB investment profitability, (iii) ADB work quality, and (iv) ADB additionality. In one or two paragraphs, this section highlights the key justifications for the overall rating, as seen from a “with- and without-project” perspective. As discussed in Appendix 1, Section F, the overall ratings matrix assigns ratings ranging from unsatisfactory to excellent for each of the four NSO dimensions, and derives an overall summary result. Fixed weights are not applied to each of the four dimensions to derive the overall rating, and the relative significance of each measure will depend on the project context and the importance of various project objectives.

E. Chapter III: Issues, Lessons, and Follow-Up Actions

52. Chapter III starts with a subsection that deals with each of the main identified positive or negative issues arising from the evaluation and the related lessons for ADB’s future policies and operations. Brief references to relevant ADB policies and other reports on comparable operations may be included in the text or referred to in footnotes to add perspective. Presentation of the main issues should be short and succinct, and earlier chapters and paragraphs may be cited, rather than details repeated. The subsequent subsection identifies forward-looking lessons that are linked to each issue and presented in a general way.

53. One or more subsections may follow, summarizing project-specific matters that reflect the evaluation findings and conclusions and clearly identify any further actions that need to be taken by ADB. The recommendations should take into account which actions are compatible with ADB’s lender, guarantor, investor, and partner roles under the investment agreements for the NSO. Similarly, disclosure constraints must be considered for commercial confidentiality reasons. The draft recommendations should be prepared following timely confidential consultation with appropriate operational staff in PSOD, RDs, and relevant support functions.
EVALUATION RATING STANDARDS FOR NONSOVEREIGN OPERATIONS
FOR USE IN PROJECT PERFORMANCE EVALUATION REPORTS (PPERs) AND
EXTENDED ANNUAL REVIEW REPORTS (XARRs)

A. Overview

1. Nonsovereign operation (NSO) evaluation standards are applied to (i) development results, (ii) the Asian Development Bank’s (ADB) investment profitability, (iii) ADB’s work quality, and (iv) ADB’s additionality. The results of this analysis are aggregated to derive an overall rating for the project. The standards used to evaluate each of these criteria are discussed in the following sections.

B. Development Results

2. Development results encompass the effects of a project on a country’s economic and social environment. Development results are evaluated based on a “with- versus without-project” comparison, considering (i) what happened with the project, and (ii) what would have happened without it. To the extent possible, this comparison is intended to distinguish the contribution of the project to development.

1. Overall Development Results Rating

a. Concept

3. The rating is a synthesis of the overall impact of the project in the developing member country (DMC) economy and addresses how well the project contributed to fulfilling ADB’s development objectives.

b. Criteria

4. Development results are rated on the basis of:
   (i) contribution to private sector development (PSD) and ADB strategic development objectives,
   (ii) economic performance
   (iii) environment, social, health, and safety (ESHS) performance, and
   (iv) business success.

5. Each indicator measures an aspect of the development impact of a project. The evaluation takes into account the sustainability of results, risk to realization of outcomes, and the impact beyond the project.

c. Evaluation Standards

6. Several indicators and ratings are not quantitative and require informed qualitative judgment. Priorities will differ depending on the nature of the project and its objectives. For these reasons, the development results rating is not simply an average of the subindicator ratings, as there are no standard weightings applied to the subindicator ratings.

1 In the context of XARR evaluation standards, NSO and private sector operations (PSO) can be regarded as equivalent to each other.
7. Considering the ratings of the four subindicators in paras. 8–29 below, the NSO's overall development impact is rated on a four-point scale:

(i) **Excellent.** A project with extraordinarily positive impact in the key dimensions relevant to it and to the investment environment, with virtually no flaws or negative impact. This rating can indicate a landmark project that made a strong contribution to private sector development and other ADB strategic objectives, including via demonstration effects, standard setting, and market improvements; business success factors; high economic sustainability; or outstanding environmental performance and socioeconomic impact.

(ii) **Satisfactory.** A project with generally satisfactory ratings on its key subindicators without material shortcomings. Alternatively, a project with some very strong positively evaluated aspects in key dimensions relevant to the operation’s investment environment that more than compensate for minor negative impacts in some aspects.

(iii) **Less than Satisfactory.** A project with either several minor shortcomings that are not compensated for by a very strong positive singular impact, or a project with a serious shortcoming in one key area, which outweighs other generally positive aspects.

(iv) **Unsatisfactory.** A project with no evaluated positive impact, or one with negative impacts on several subindicators that clearly outweigh the remaining positive aspects.

2. **Development Results Subratings**

   a. **Contribution to Private Sector Development and ADB Strategic Development Objectives**

      i. **Concept**

8. NSO development contributions arise through the project's impact on the developing member countries’ (DMC) investment environment, the pertinent economic/industry sector, the physical environment, local communities, and society at large, as well as specific groups, including, among others, the poor and disadvantaged. This subrating reflects how well the investment contributes towards PSD and other targeted development objectives, ultimately leading to inclusive growth, environmentally sustainable growth or enhanced regional cooperation. Apart from any within company effects in terms of changes in project approaches, investment modalities, financial structure, funding, skills, technologies, systems, products or standards and practices, the indicator considers various PSD outcomes and impacts beyond the project company, investee company or financial intermediary, including demonstration effects in the wider economy and the project sector such as the wider dissemination of new industry or business expertise, and the setting of new standards, and economic links and changes in sector investment levels, competition and market structure. For public sector NSO, an assessment of investment contributions to PSD is optional, if there was no related project objective stated at the time of approval. Other NSO contributions to high-level strategic ADB development objectives are assessed along a probable results chain considering the actual achievement of
relevant project outputs and outcomes.\textsuperscript{2} These tend to be related to sector results such as an increase in infrastructure capacity and utilization, improved availability and utilization of finance for certain purposes, improved access to and affordability of goods and infrastructure or financial services, employment generation, or greenhouse gas reductions.

\textbf{ii. Indicators}

9. Indicators are primarily identified by referring to the output, outcome and impact statements and targets presented in project approval documents including the design and monitoring framework (DMF), and to other applicable PSD and development indicators. Appendixes 10–12 contain NSO rating checklists for infrastructure, private equity fund, and small and medium enterprise-related financial intermediation type transactions as examples, which will have to be adapted for other types of transactions. The checklist assessment considers various results areas under which actual and potential achievements need to be identified and rated (only actual achievements). Justifications for the ratings should be clear and based on evidence of claimed effects and credible reasoning.\textsuperscript{3} The overall rating under this rating category should consider and primarily reflect the level of actual sustainable achievement of stated project outcomes in the design and monitoring framework. In exceptional cases, when original DMF statements and targets are found to be deficient by the evaluator (in terms of results chain logic, statement levels, the selection of indicators or their levels), the DMF can be restated. Any restatement needs to be clearly indicated and justified.

\textbf{iii. Evaluation Standards}

10. Project performance should be rated using the relevant impact checklist in accordance with the following qualitative standards:

(i) \textbf{Excellent.} Considering its size and use of resources, the project has major positive and sustainable effects with regard to its contributions to PSD and strategic development objectives, and has virtually no negative impact in this respect. Project outcomes usually exceed targets.

(ii) \textbf{Satisfactory.} The project has demonstrable positive and sustainable effects with regard to its contributions to PSD and other strategic development objectives that clearly compensate for any negative impact in this respect. Project outcomes meet targets.

(iii) \textbf{Less than Satisfactory.} The positive development effects of the project are insignificant with regard to PSD or other targeted strategic development dimensions considering the project size and use of resources, or there is some negative impact that is not compensated for by positive impacts, but the negative impact is neither significant nor long-lasting.

(iv) \textbf{Unsatisfactory.} The project has substantial or long-term negative impact on PSD or other targeted strategic development dimensions.

\textsuperscript{2} Examples of possible results chains are increased infrastructure capacity (output), increased infrastructure utilization (outcome), increased economic production (impact), or increased SME financing by the supported FI (output), sustainable expansion of FI’s SME lending and market share (outcome), increased system-wide SME financing and improved SME activity and performance (impact).

\textsuperscript{3} The analysis needs to take into account the likely “without-project” scenario to assess project impacts.
b. Economic Performance

i. Concept

11. This indicator measures the incremental effect on all key economic stakeholders on a with- vs. without-project basis or before- vs. after-project basis. The contribution of a project involving a capital investment to economic development is measured primarily by the economic internal rate of return (EIRR). The economic return on invested capital (EROIC) is used as a proxy for nonfinancial market corporate loans and equity funding that is not targeted at specific capital investment projects, and expansion projects where the incremental costs and benefits clearly cannot be separately quantified. Both EIRR and EROIC are calculated in real terms, i.e., adjusted for inflation. In all cases, the assessment should consider only impacts that have not yet been taken into account in other indicators, such as contribution to PSD or other ADB strategic objectives. Where impacts can plausibly pertain to both types of indicators, the potential overlap should be discussed and a decision made and justified under which heading it will be counted.

12. In general, nonfinancial market projects should be subject to an EIRR calculation, based on the FIRR adjusted for relevant distortions to market prices and externalities. Where incremental cash flows cannot be identified but an ROIC has been calculated, the assessment should be based on the EROIC, using the ROIC as a basis and similarly adjusting for price distortions and externalities.

13. For private equity funds, if the economic performance of individual portfolio investee companies can be estimated, the respective FIRRs should be adjusted for distortions and externalities. Alternatively, the fund’s gross IRR combined with qualitative analysis can be used as a proxy.

14. For all other financial market projects, a qualitative stakeholder analysis should be carried out, identifying each stakeholder group affected by the project, the positive and negative impacts on them, and a broad judgment on the magnitude and direction (positive or negative) of the impact on each. This should not duplicate impacts already considered under Contribution to PSD and other ADB strategic objectives.

ii. Indicators

15. Alternative 1: EIRR. EIRR is used for capital expenditure projects where the incremental costs and benefits can be separately quantified. The EIRR calculations tend to focus on issues such as environmental externalities and market distortions and do not seek to quantify all of the PSD and strategic impact externalities identified in the checklists in Appendixes 5–7. Financial flows may be adjusted for distortions such as subsidies and taxes. The adjustments may also change revenues to border prices for internationally traded goods and services, or apply “willingness-to-pay” concepts in regulated sectors such as power. Other adjustments may be made for market distortions, for certain economically scarce or abundant factors, or to quantify positive or negative externalities.\(^4\)

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\(^4\) For guidelines for calculating EIRR, refer to Appendix 4 and to Section G1 of the Operations Manual, 15 December 2003.
16. **Alternative 2: EROIC.** EROIC can be used when it is not possible to identify project costs and benefits clearly. This figure can be calculated by taking the financial ROIC and adjusting for factors such as taxes and subsidies used to derive EIRR.

17. **Alternative 3: Proxies for Investments via Private Equity Funds.** The gross equity fund portfolio return (before management fees) together with qualitative analysis of economic contributions and distortions affecting portfolio companies and supported market sectors may be used as a proxy for economic performance if the weighted average EIRR of individual portfolio investments cannot be calculated.

18. **Alternative 4: Qualitative Stakeholder Analysis.** For financial market projects other than private equity funds, and as a last resort for nonfinancial projects for which calculation of EIRR or EROIC is not feasible (although it should be attempted wherever possible), the assessment of economic performance should be based on a qualitative stakeholder analysis, identifying each stakeholder group affected by the project (including and beyond the financial institution's/project company's owners and financiers, e.g., all, or specific/targeted groups of, borrowers, savers, and investors; other financial intermediaries; various industry sectors; etc.), the positive and negative impacts on them, and a broad judgment of the magnitude and direction (positive or negative) of the impact on each.

19. Apart from its impact on direct project stakeholders, the economic analysis should focus on changes in the growth, productivity, and competitiveness of the industries/economic sectors/markets targeted or indirectly supported by the project; and the quality, accessibility, and affordability (though improved pricing) of products and services produced. The analysis of such stakeholder impact should be supported by quantitative data as much as possible. An important part of the analysis concerns the extent to which industry sectors or market segments targeted or supported by the FI and/or project rely on economic distortions (e.g., subsidies and other state support, an interventionist exchange rate regime, trade barriers) for its commercial viability; where this is the case, the project's contributions to economic development are likely to fall short of the financial results achieved.

### iii. Evaluation Standards

20. The rating standard for EIRR or EROIC as applied to Alternatives 1 and 2 (and 3, if a weighted average EIRR can be calculated for the portfolio investments) is based on the following hurdle rates:$^5$

- **Excellent:** \( \text{EIRR/EROIC} \geq \text{the larger of } 1.75 \text{ times WACC or } 17.5\% \)
- **Satisfactory:** \( \text{EIRR/EROIC} \geq \text{the larger of } 1.2 \text{ times WACC or } 10\% \)
- **Less than Satisfactory:** \( \text{EIRR/EROIC} \geq \text{the larger of } 0.8 \text{ times WACC or } 5\% \)
- **Unsatisfactory:** \( \text{EIRR/EROIC} < \text{the larger of } 0.8 \text{ times WACC or } 5\% \)

21. The rating standard for Alternative 3 (if a weighted average EIRR cannot be calculated for the portfolio investments) is based on the following hurdle rates and criteria:$^6$

- **Excellent:** \( \text{gross IRR} \geq 1.75 \text{ times FWACC and at least half of the investee companies have positive equity returns. There is evidence that supported market sectors make strong contributions to economic growth.} \)

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$^5$ Quantitative hurdle rates are taken from the ECG GPS dated November 2011.

$^6$ Quantitative hurdle rates are taken from the ECG GPS dated November 2011.
Appendix 1

(ii) **Satisfactory**: \( \text{grossIRR} \geq 1.2 \times \text{FWACC} \); or \( \text{grossIRR} < 1.2 \geq 0.8 \) times FWACC and at least half of the investee companies have positive equity returns. There is evidence that supported market sectors are economically viable and do not rely on economic distortions to maintain commercial viability.

(iii) **Less than Satisfactory**: \( \text{grossIRR} \geq 0.8 \times \text{FWACC} \) and most of the investee companies have zero or negative equity returns. Alternatively, there is evidence that supported market sectors are weak economic contributors or rely on economic distortions to maintain commercial viability.

(iv) **Unsatisfactory**: \( \text{grossIRR} < 0.8 \times \text{FWACC} \) or nearly all of the investee companies have zero or negative equity returns. There is evidence that most market sectors supported by the project are weak economic contributors to society or rely on economic distortions to maintain commercial viability.

22. The rating standard for stakeholder analysis is based on:

(i) **Excellent.** The project meets the minimum standard for satisfactory financial performance, and there is evidence that (a) it has generated substantial net economic benefits for its wider stakeholders (i.e., those other than the project company’s owners and financiers) especially for any targeted groups under the project; and (b) the project or the supported financial institution, markets or groups do not rely on economic distortions for commercial viability.

(ii) **Satisfactory.** Either (a) the project meets the minimum standard for satisfactory financial performance, and there is evidence that it has generated a positive balance of benefits for its wider economic stakeholders (i.e., those other than the project company’s owners and financiers) especially for any targeted groups under the project; or (b) the project just fails to meet the minimum standard for satisfactory financial performance, but there is evidence that it has generated substantial net benefits for its wider economic stakeholders. In either case the project, the supported financial institution, markets or groups should not rely on economic distortions to maintain commercial viability.

(iii) **Less than Satisfactory.** Either (a) the project fails to meet the minimum standard for satisfactory financial performance and there is insufficient evidence of significant net economic benefits for wider stakeholders (i.e., those other than the project company’s owners and financiers); or (b) the project or the supported financial institution, markets or groups rely on economic distortions to maintain commercial viability.

(iv) **Unsatisfactory.** The project fails to meet the minimum standard for satisfactory financial performance and has resulted in net economic costs for its wider stakeholders (i.e., those other than the project company’s owners and financiers). In the case of financial market projects, key market sectors supported by the project or the financial intermediary are weak economic contributors to society or are not economically viable.

c. Environment, Social, Health, and Safety Performance

   i. **Concept**

23. The ESHS evaluation assesses the project’s impact on the physical environment, social development, and workers’ health and safety in the area of its influence. The review also addresses project performance relative to ADB policies and strategies, the operation’s ESHS objectives, adherence to the ESHS standards applicable at approval, and key current standards
that are relevant to the project. The aims, character, and size of the project influence the scope of the evaluation. Social and environmental impacts that go beyond safeguards dimensions and are part of the project’s raison d’être (e.g., in conjunction with renewable energy or inclusive business projects) should be assessed under contributions to PSD and strategic ADB objectives.

ii. Indicators

24. The ESHS evaluation considers primarily project compliance with pertinent ADB safeguards requirements prevailing at the time of approval, and, only secondarily, ADB requirements prevailing at the time of the evaluation.

25. The indicators are drawn from project documents and include baseline and monitoring indicators derived from (i) environmental and social impact assessments; environmental management, involuntary resettlement, and indigenous people plans and related monitoring reports; (ii) reports related to environmental and social management systems, environmental management systems or frameworks, and related monitoring reports; and (iii) other studies and plans on health and safety, resettlement, and other relevant socioeconomic issues.

26. When applying the ESHS indicators, the evaluation needs to clearly define (i) compliance benchmarks (derived from statutory and regulatory requirements and ADB standards in investment agreements); (ii) nonmandatory performance indicators subject to defined targets and standards; and (iii) other positive and negative changes that can be attributed to the project not captured under the indicator for Contributions to PSD and other Strategic ADB Objectives.

iii. Evaluation Standards

27. The project’s ESHS performance should be rated as follows:

(i) **Excellent.** The project materially complies with or exceeds the standards in host country laws and regulations, as well as the benchmarks set by ADB at approval and that currently apply to similar projects in key relevant areas. Material improvements in overall ESHS performance in expansion projects can clearly be attributed to the project and ADB participation. The project demonstrates new relevant technologies and risk control and standards, and ESHS practices are used in the host country and by ADB as landmark examples of excellent ESHS standards and performance. Financial intermediaries demonstrate standards that meet or exceed all the key ADB requirements in the organization, policies, and handling of subprojects of the intermediary. Funded investee companies/subborrowers/subprojects contribute to higher overall ESHS standards in their respective industries or sectors.

(ii) **Satisfactory.** The project is in material compliance with standards set by ADB at approval and with host country laws and regulations, and there are no significant shortfalls with regard to currently applicable ADB standards and host country regulations. Improved overall ESHS performance in expansion projects can reasonably be attributed to the project and ADB participation. The direct and wider positive ESHS impacts are largely sustainable and on the whole compensate for identified negative impacts or damage that have been corrected by introducing mitigation measures. Financial intermediaries meet ADB
requirements in their organization, policies, and handling of subprojects, as demonstrated by project performance in ESHS areas.

(iii) **Less than Satisfactory.** The project materially complies with most of the key standards and milestones in the host country laws and regulations and as set by ADB at approval, but does not comply with all, or there are major shortcomings with regard to current ADB standards and host country laws. Improvements to overall ESHS performance in expansion projects are below expectations or likely to be so. The project has fair to modest potential for wider demonstration of new relevant technologies and for complying with overall ESHS standards, or to some extent may have actual (or a material risk of) negative demonstration effects. The positive impacts are not great enough to meet the key expectations, or they are met in most respects, while substandard performance in others still cannot justify a satisfactory overall ESHS rating. Financial intermediaries do not fully meet ADB requirements in the organization, policies, and handling of subprojects by the intermediary, as demonstrated by the project performance in ESHS areas.

(iv) **Unsatisfactory.** The project does not materially comply with either the statutory laws and regulations or ADB's requirements at approval, and mitigation prospects are uncertain or unlikely to be effective. The project caused substantial damage to the environment that may be permanent, and/or exposed its workers and the community to excessive health risks or worsened socioeconomic conditions. Mitigation measures required by regulatory enforcement are unsatisfactory or there is potential for litigation for damages due to substantial failings, when measured against environmental action and resettlement plans. Financial intermediaries do not meet ADB requirements in their policies, organization structure, and procedures for the handling of subprojects, as illustrated by poor ESHS risk mitigation systems, performance standards, and compliance in subprojects.

(v) **No Opinion Possible.** Where, after best efforts, the relevant information to establish material compliance (or lack thereof) cannot be obtained, a rating of “no opinion possible” may be assigned. This rating should be used as a last resort, after reasonable effort has been made to obtain the necessary information. A sponsor’s failure to report on material negative ESHS events, or repeated refusal to cooperate on reporting on these issues, should result in a less than satisfactory or unsatisfactory rating.

d. Business Success

i. Concept

28. In evaluating business success, the incremental effect of the project on all key financial stakeholders in the project and/or company is assessed on a with- vs. without-project basis or a before- vs. after-project basis. For capital expenditure projects involving direct investment in identifiable assets, the project’s contribution to business success is measured primarily by the real after-tax financial internal rate of return (FIRR)\(^7\) that is compared to the real weighted average cost of capital (WACC) for the project entity to determine whether the project is covering its opportunity cost on capital employed. Where the NSO facility is in the form of a

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\(^7\) It is important to note the above standards for rating NSOs’ business success differ from the standards for rating ADB’s own investment profitability (Section C, paras. 39–46). According to the “harmonization” Good Practice Standards of the Evaluation Cooperation Group for private sector operations, member multilateral development banks (MDBs) should apply common benchmarks for measuring project profitability, while each MDB sets separate return requirements for its own investments.
corporate loan or equity investment in a nonfinancial institution that is not specific to a particular investment, or where the incremental cash flows cannot be identified, the real financial return on invested capital (ROIC) may be used as a proxy for FIRR.\(^8\)

29. For investments in private equity funds that have clearly identifiable financial subproject performance measures, a broad judgment should be provided on the expected range within which the combined FIRR would be likely to fall, which can then be compared to the fund’s weighted average cost of capital (FWACC). Alternatively, the projected or realized net return on equity (ROE) or net internal rate of return to the fund’s investors should be used and compared with the FWACC.

30. For projects where an FIRR or ROIC can be calculated in a meaningful manner, the ratings can consider, on a secondary basis and where appropriate, the (i) achievement of business goals stated during project approval, and (ii) overall prospects for sustainability and growth of the project company or entity.

31. For other financial market projects, where calculation of FIRR or ROIC is not feasible or meaningful, the rating should be based on (i) the achievement of project business objectives, in particular the extent to which the project has, or is judged likely to, fulfill the process and business goals that were articulated at approval; in the case of financial market projects with targeted funding, this includes the extent to which the project has reached certain types of subborrowers or market segments that were targeted, based on indicators such as growth in lending and market share for these segments, and loan spreads minus write-offs/losses for these market segments in general and compared with the overall portfolio of the financial institution; and the (ii) financial performance and long-term profitability and viability of the financial institution in question, including an assessment of its capital, asset quality, management, earnings, and liquidity (see Appendix 12).

ii. Indicators and Evaluation Standards

32. Alternative 1: Project FIRR vs. WACC. The following FIRR and WACC benchmarks are used to rate specific investments for standalone projects where the incremental costs and returns can be identified and quantified in terms of basis points (bps) over WACC:\(^9\)

   (i) Excellent: \( \text{FIRR} \geq \text{WACC} \times 1.25 \)
   (ii) Satisfactory: \( \text{FIRR} \geq \text{WACC} \)
   (iii) Less than Satisfactory: \( \text{FIRR} \geq \text{WACC} \times 0.7 \)
   (iv) Unsatisfactory: \( \text{FIRR} < \text{WACC} \times 0.7 \)

33. These rating standards can also be applied to specific ADB investments via private equity funds that are linked to identifiable capital expenditure and subprojects that have sufficiently detailed performance records.

34. Alternative 2: Time-adjusted ROIC vs. WACC, Applying the Scale in Alternative 1. ROIC is used on a before- and after-project basis for rating projects with NSO corporate loans or equity investments provided by ADB when

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\(^8\) The FIRR and ROIC calculations discount all cash flows and terminal values. As such, ROIC measures the internal financial strength of the enterprise regardless of the forms or conditions of its financing. Average reported and projected yearly returns on equity are an inferior measure and disregard the time factor and compounding element.

Appendix 1

(i) there are clearly no identifiable and measurable incremental project costs and returns, and
(ii) ROIC can be meaningfully calculated as time-adjusted real compound return on all invested capital in the enterprise based on its initial (before-project) and terminal (after-project) values as available and projected.

35. The rating standards for ROIC vs. WACC in these circumstances are the same as the indicators presented in Alternative 1.

36. **Alternative 3. For Private Equity Funds—Fund’s Net Return on Equity or Net IRR to Investors vs. Fund’s Weighted Average Cost of Capital.** Either the fund’s net ROE or the net IRR accruing to the fund investors (after management fees, carried interest, and other administrative costs) can be used as a proxy for evaluating the business success of a private equity fund. This result is then set against the FWACC. For a single-country fund, the FWACC consists of three components added to each other: (i) the 10–year fixed-rate swap equivalent of 6 months London Interbank Offered Rate (as of the date of commitment); (ii) the country spread applied by ADB to reflect the country’s macro risk (also as of the date of commitment)\(^\text{10}\); and (iii) a standard 600 bps premium for combined project and equity risk. For multicountry funds, the same rates are applied, weighted by the amount of funds invested in each country.

37. The rating hurdles for the projected or realized net IRR to private equity fund investors compared with these two potential benchmarks are as follows.

- **Excellent:** net IRR $\geq$ FWACCx1.25
- **Satisfactory:** net IRR $\geq$ FWACC
- **Less than Satisfactory:** net IRR $\geq$ FWACCx0.7
- **Unsatisfactory:** net IRR $<$ FWACCx0.7

38. **Alternative 4: Business Performance and Prospects of Institutions Supported under Other Financial Market Projects.** For most other types of financial market projects involving financial intermediaries, calculation of an FIRR or ROIC will not be feasible or meaningful. The assessment is therefore based on the following benchmarks:

- **Achievement of business objectives:** The business and process goals articulated at approval are broadly achieved or are deemed within reach. For any financial market projects that seek to develop business in specified sectors or market segments, it should be assessed to what extent these business objectives have been met.
- **Performance of supported financial institution:** The financial institution’s overall profitability, adaptability and prospects for sustainability and growth are sound, such that it is expected to remain competitive in relation to its market and sector peers. The performance and prospects of the institution are assessed along the dimensions of capital adequacy, asset quality, management, profitability, and liquidity, including the quality of its credit and risk management policies, operating systems and procedures, and its corporate and financial governance and management practices and balance sheet (see Appendix 13 for detailed factors to be considered under these headings).

39. The following rating standards apply:

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\(^{10}\) ORM produces an annual cost of equity memorandum for different countries, which may be a useful source for evaluators.
(i) **Excellent**
   a) For untargeted market transactions, the project’s business and process goals articulated at approval are surpassed. For targeted financial market operations, the supported financial institution has substantially increased its reach to subborrowers or investee groups that were specified as targets at approval and is achieving strong profitability in these market segments.
   b) The financial institution’s overall profitability, adaptability, and prospects for sustainability and growth are strong, such that it is expected to retain or achieve market-leading status. The financial institution meets all standards for satisfactory capital, asset quality, management, profitability, and liquidity (see Appendix 13).

(ii) **Satisfactory**
   a) For untargeted market transactions, the project’s business and process goals articulated at approval are broadly achieved or are deemed within reach albeit with some risk to their realization. For targeted financial market operations, the supported institution has succeeded in reaching subborrowers or investee groups that were specified as targets at approval and is achieving reasonable profit margins in this business segment.
   b) The financial institution’s overall profitability, adaptability, and prospects for sustainability and growth are sound, such that it is expected to remain competitive in relation to the market and its sector peers. There are no material shortcomings under any of the capital, asset quality, management, earnings, and liquidity indicators assessed, i.e., no shortcomings that might impair the institution’s capacity to remain viable and grow.

(iii) **Less than Satisfactory**
   a) For untargeted market transactions, at least one of the project’s business and process goals articulated at approval is not met. For targeted financial market operations, the supported institution has failed to reach subborrowers or investee groups that were specified as targets at approval, or is generating insufficient profit margins in serving these market segments.
   b) The financial institution’s overall profitability, adaptability, and prospects for sustainability and growth are weak, such that it is struggling to remain competitive in relation to the market and its sector peers. The institution fails to meet satisfactory standards in at least one of the capital, asset quality, management, earnings, and liquidity areas.

(iv) **Unsatisfactory**
   a) For untargeted market transactions, most of the project’s business and process goals articulated at approval are not met. For targeted financial market operations, the supported institution has failed to reach subborrowers or investee groups that were specified as targets at approval and/or has used funds to support undesirable subborrowers.
   b) The financial institution’s overall profitability, adaptability, and prospects for sustainability and growth are negative, such that it is clearly underperforming in relation to the market and its sector peers. There are material shortcomings in several of the key areas of capital, asset quality, management, earnings, and liquidity.
C. ADB’s Additionality

1. Concept

40. Evaluation of ADB’s additionality considers ADB’s value proposition in providing support to the project. It is based on the counterfactual assessment of how the projects would have (or would not have) proceeded without ADB support. It should consider (i) financial additionality in providing funding or catalyzing other funding; and (ii) nonfinancial additionality in improving the project’s risk profile, design, functioning, and development impact.

2. Indicators

41. The key questions to address for assessing financial additionality are whether the client would have been able to obtain sufficient financing on appropriate terms (considering pricing, tenor, grace period, currency, and timeliness, taking into account possible additional costs or delays imposed by virtue of ADB’s participation that would not arise for private sources of funds) in the absence of the ADB project; whether ADB was catalytic in mobilizing funds from other sources or merely helped complete the financing plan; and whether ADB’s involvement was necessary to reduce risk perceptions of other financiers.

42. The assessment of nonfinancial additionality considers whether ADB was needed to bring about a fair and efficient allocation of risks and responsibilities, and whether ADB’s contributions (including through knowledge sharing, advisory services, or complementary operations) helped improve project design; client capacity; ESHS or governance standards; and, ultimately, project performance and development impact.

3. Evaluation Standards

   (i) Excellent. There are strong indications and/or logical justification that leave no reasonable doubt that, without ADB participation the project would not have gone ahead, or ADB made a major contribution, particularly with regard to non-financial additionality, to make it a success.

   (ii) Satisfactory. If ADB had not participated, the project would not have gone ahead with financing on appropriate terms or without undue delays; or the project would have entailed an unfair or inefficient allocation of risks and responsibilities; or the project would have been weaker in some key area, such as business and development performance, or standards of ESHS and governance.

   (iii) Less than Satisfactory. It is likely that the project would have been implemented with required market finance without ADB’s participation, and without material delay. No strong indications or logical justifications support the view that ADB’s participation in the project materially improved performance in key areas.

   (iv) Unsatisfactory. The project would clearly have gone ahead with essential market finance without ADB’s participation, and without material delay. ADB did not deliver its expected contribution, or there are indications that ADB inputs and requirements undermined project performance.
D. ADB’s Investment Profitability

1. Concept

43. Ideally ADB’s investment profitability should be evaluated by comparing the net profit contribution of the project (gross income less financing costs, loss provisions/write-offs, and transaction and administrative costs) to the minimum targeted risk-adjusted returns on capital employed for guarantees, loans, and equity investments. However, although ADB has introduced a loan pricing model that estimates the average cost to ADB of providing a loan or guarantee and RRPs for equity investments contain target returns, minimum overall target returns have not been formally defined by Management and cost-accounting data do not allow the calculation of project-specific transaction costs. In the absence of such data, an acceptable alternative for assessing ADB’s investment profitability is to calculate the gross profit contribution of the project, i.e., its gross income less finance costs and loss provisions/write-offs, but before transaction costs, and compare it to the contribution that would have been achieved if relevant appraisal expectations had been met.

44. For guarantee operations, the analysis of ADB returns should take into account the (i) relative risk of a guarantee operation as compared with that for direct loans and equity investments, and (ii) the benefit of syndication or counterguarantee arrangements that would allow for the transfer of some or all risks associated with nonsovereign guarantee operations to ADB’s financing partners.

2. Indicators

45. For loans and guarantees, the gross profit contribution is calculated as returns net of financing cost and loss provisions, but before deducting administrative costs.

46. For ADB’s direct equity investments and indirect private equity fund investments where ADB has proprietary holdings, profitability is assessed by referring to the real net equity FIRR.

3. Evaluation Standards

a. ADB’s Loan or Guarantee Profitability

47. Loans are rated as follows:

(i) **Excellent.** Market pricing achieved and ADB pricing model cleared; use of ADB guarantees or B-loans; fully performing loan that earned more than envisaged at approval due to prepayments, the use of warrants, or sell-on with a profit;

(ii) **Satisfactory.** Market pricing achieved and ADB pricing model cleared or an exception to the model requirements approved by the Office of Risk Management; the loan has been or is expected to be paid as scheduled;

(iii) **Less than Satisfactory.** Market pricing achieved and ADB pricing model cleared or exception is approved; and (a) interest and principal payments are made as documented in the loan document, but excessive covenant breaches and waivers are observed suggesting that profitability on the loan is lower than anticipated due to heavy administration burden; or (b) the loan has been rescheduled, but repayments on the revised schedule are being made as agreed, and no write-down or write-off was taken;

(iv) **Unsatisfactory.** Market pricing achieved and ADB pricing model is cleared or exception is approved, but (a) loan is in non-accrual status; (b) loan was not fully
repaid; or (c) loan has been rescheduled with substantial loss of capital; i.e. loan is partially written off with repayments ongoing on a reduced loan amount.

48. In applying the above standards to loans, the evaluation needs to recognize that cases with early prepayment for small nonrevolving loans below $10 million may involve relatively high net transaction and administration costs for ADB. In these circumstances, it may be justified to apply a lower rating.

49. Guarantees are rated as follows:
   (i) **Excellent.** Market pricing achieved and ADB pricing model cleared; all guarantee fees have been or are expected to be received, and the guarantee is not called and not expected to be called in the future; guarantee facilitated other financing by ADB;
   (ii) **Satisfactory.** Market pricing achieved and ADB pricing model cleared; all guarantee fees have been or are expected to be received, and the guarantee is not called and not expected to be called in the future;
   (iii) **Less than Satisfactory.** Market pricing achieved and ADB pricing model cleared or exception approved; guarantees fees have been received or are expected to be received, but the guarantee has been called or is likely to be called and it is not certain that amounts paid out will be fully compensated by fee income;
   (iv) **Unsatisfactory.** Market pricing achieved and ADB pricing model is cleared or exception is approved; guarantee fees have not been received or are not expected to be received in full, or the guarantee has been called, resulting in losses to ADB.

b. ADB’s Equity Profitability for Direct Investments and via Partnerships in Equity Funds

50. Ratings consider to what extent realized net capital gains values or net fair value as per international financial reporting standards translate into a real net equity FIRR that exceeds the minimum return requirements defined at approval as indicated by the multiples in Table A1.1. Where no return requirements have been defined at approval, the rating assesses whether the real net FIRR reflects an appropriate spread over actual or notional loan yields for the same credit risk.\(^\text{11}\)

<table>
<thead>
<tr>
<th>Item</th>
<th>Excellent</th>
<th>Satisfactory</th>
<th>Less than Satisfactory</th>
<th>Unsatisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td>From realized exits, or fair value based on partial sale or firm offers</td>
<td>1.3</td>
<td>1.0</td>
<td>0.7</td>
<td>&lt;0.7</td>
</tr>
<tr>
<td>Fair value valuations for investments in funds where there has not been an exit and no market benchmark</td>
<td>1.7</td>
<td>1.2</td>
<td>0.9</td>
<td>&lt;0.9</td>
</tr>
</tbody>
</table>

< = less than, FIRR = financial internal rate of return.

\(^\text{11}\) This rate of return can potentially be compared to the 5-year swap rate within a country where available to obtain an indication of the profit margin, which can then be compared with other comparable investments. This concept is not yet part of the GPS for MDBs for PSO.
E. ADB’S Work Quality

1. Concept

51. Evaluation of ADB’s work quality addresses (i) screening, appraisal, and structuring; and (ii) monitoring and supervision. The evaluation needs to consider whether ADB applied good practice standards in these areas, such as those given in ADB policies, procedures, and guidance notes. It should consider the effectiveness of internal consultation and collaboration between nonsovereign teams and sovereign teams within ADB, as well as effective external stakeholder consultation, including with relevant government agencies. The analysis also needs to consider why changes occurred to the project and/or financial structure in areas such as cancellations, prepayments, and modifications of loan terms.

52. A satisfactory development outcome for the project may have been achieved even though ADB performed poorly in appraising and supervising the project, had a limited role, and made virtually no contribution to project outcome. Similarly, an unsatisfactory development and investment outcome may have been caused by external factors that could not reasonably have been foreseen, or by risks that could not have been mitigated, and which occurred despite an excellent standard of work by ADB.

53. The evaluation of ADB’s work quality needs to consider both scenarios, identify key issues, and draw relevant lessons that can be used to improve future policies and operations.

2. Indicators

54. Screening, appraisal, and structuring are concerned with identifying the quality of the project in terms of achieving development and financial and economic outcomes while complying with social and environmental safeguards. The indicator reviews the relevance of the project with regard to ADB’s corporate, country, and sector strategies; the assessment of project fundamentals such as sponsor quality, management, country conditions, market dynamics, and project configuration and cost; the appraisal of the financing plan and assumptions used in financial projections; the effectiveness of project and political risks and steps taken to mitigate them; the assessment of ESHS risks and steps taken to mitigate them; the selection, structuring, and pricing of appropriate investment instruments; the incorporation of suitable exit mechanisms for ADB’s investment; and the client’s satisfaction with ADB services provided in the above.

55. Evaluation of monitoring and supervision focuses on how well the original concept was executed in terms of managing risks and achieving project objectives, and the level of support provided by ADB to help realize the project’s objectives and achieved standards. Notably, it measures the completeness and quality of supervision reports, the monitoring of compliance with investment covenants, the monitoring of the client’s ESHS performance, the adequacy of ADB’s response to emerging problems or opportunities, the client’s satisfaction with international finance institution (IFI) services, and the contribution by an ADB representative on the client company’s board where applicable.

3. Evaluation Standards

56. Each of the subindicators is evaluated and then they are aggregated to derive the overall rating for ADB work quality:
a. Screening, Appraisal, and Structuring

(i) Excellent. ADB’s screening, appraisal, and structuring performance met or exceeded ADB’s good practice standards. It could serve as an example for other multilateral development banks.

(ii) Satisfactory. The front-end work quality materially met ADB’s good practice standards.

(iii) Less than Satisfactory. ADB’s screening, appraisal, and structuring performance had a material shortfall in at least one key area.

(iv) Unsatisfactory. There were material shortfalls in several areas or a serious mistake or omission demonstrating substandard front-end work bordering on negligence in at least one key area.

b. Monitoring and Supervision

(i) Excellent. ADB kept itself promptly and fully informed about the project in all relevant areas, including environmental and social performance. All required supervision reports were timely, comprehensive, and accurate. Handover in case of changes in ADB staff monitoring responsibilities was done well. Where unexpected problems occurred, ADB reacted promptly and adequately to facilitate success of the project and protect its investment.

(ii) Satisfactory. ADB kept itself sufficiently informed of project progress. Supervision reports were generally timely and included key required information. ADB reacted in an appropriate manner to major changes in the performance of the project or the company.

(iii) Less than Satisfactory. ADB’s supervision practices were partly insufficient to monitor the performance of the project and company and/or ADB did not always take timely and appropriate action. Portfolio monitoring and reporting of progress, and covenant compliance and risk management were of an uneven standard.

(iv) Unsatisfactory. ADB’s supervision was inadequate, and it was unaware of material developments and/or did not use information to intervene on a timely and appropriate basis. Portfolio monitoring and reporting on progress, and covenant compliance and risk management were substandard.

c. Overall ADB Work Quality

(i) Excellent. ADB’s performance met high standards at all stages, and there are strong indications of its positive role and contribution. Performance was excellent against all two subindicators.

(ii) Satisfactory. ADB’s performance was materially up to a high professional standard for multilateral development banks engaged in private sector investment operations. Performance was satisfactory or better against all two subindicators.

(iii) Less than Satisfactory. There was a material shortfall in at least one area.

(iv) Unsatisfactory. There were shortfalls in several areas or a serious shortfall in one area, which led (or could have led, under less favorable circumstances) to a less than satisfactory development impact or investment return.
F. Overall Rating of the Project

1. Concept

57. This section presents the overall rating of the NSO, as justified by the underlying ratings of development impact, ADB investment profitability, ADB work quality, and ADB additionality.

58. No fixed weights are used to derive the overall rating, as it depends on the particular project and investment environment context, and the importance of project objectives in the light of ADB strategies and priorities. A ratings matrix that provides guidance on how the four NSO evaluation dimensions are aggregated to derive an overall result is presented below.

2. Overall Ratings Matrix

59. The ratings matrix in Table A1.2 is indicative, and does not encompass all conceivable combinations of outcomes.

Table A1.2: Indicative Ratings Matrix for Overall Ratings in Evaluation of Nonsovereign Operations

<table>
<thead>
<tr>
<th>Rating</th>
<th>Development Results (DR)</th>
<th>ADB Investment Profitability (IP)</th>
<th>ADB Additionality (ADD)</th>
<th>ADB Work Quality (WQ)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highly successful (HS)</td>
<td>Excellent</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>Requires excellent DR and minimum satisfactory for IP, ADD, and WQ</td>
</tr>
<tr>
<td>Successful (SU)</td>
<td>Satisfactory</td>
<td>Less than satisfactory</td>
<td>Less than satisfactory</td>
<td>Less than satisfactory</td>
<td>Requires minimum satisfactory for DR and minimum less than satisfactory for IP, ADD, and WQ</td>
</tr>
<tr>
<td>Less than successful (LS)</td>
<td>Less than satisfactory</td>
<td>Less than satisfactory</td>
<td>Less than satisfactory</td>
<td>–</td>
<td>Requires minimum less than satisfactory for DR, IP, and ADD</td>
</tr>
<tr>
<td>Unsuccessful (US)</td>
<td>Unsatisfactory</td>
<td>Unsatisfactory</td>
<td>–</td>
<td>Unsatisfactory DR and/or ADD</td>
<td></td>
</tr>
</tbody>
</table>

60. The indicative ratings matrix presented in Table A1.2 is intended as a rough guide. It is not complete, and does not include all conceivable combinations. Ratings presented in bold depict singular minimum ratings that would normally need to be met to derive the respective overall rating. Unsatisfactory development results and/or additionality will lead to an overall rating of unsuccessful. Exceptions must be highlighted in evaluation reports and strongly justified.
STANDARD TABLE OF CONTENTS FOR NONSOVEREIGN OPERATIONS PERFORMANCE EVALUATION REPORTS

<table>
<thead>
<tr>
<th>CONTENTS</th>
<th>Length, approx no. of pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>BASIC DATA</td>
<td></td>
</tr>
<tr>
<td>MAP</td>
<td></td>
</tr>
<tr>
<td>EXECUTIVE SUMMARY</td>
<td>(1–2)</td>
</tr>
</tbody>
</table>

I. THE PROJECT  
A. Project Background  
B. Key Project Features  
C. Progress Highlights  

II. EVALUATION  
A. Project Rationale and Objectives  
B. Development Results  
   i. Contributions to Private Sector Development and ADB Strategic Development Objectives  
   ii. Economic Performance  
   iii. Environment, Social, Health, and Safety Performance  
   iv. Business Success  
C. ADB Additionality  
D. ADB Investment Profitability  
E. ADB Work Quality  
F. Overall Evaluation  

III. ISSUES, LESSONS, AND RECOMMENDED FOLLOW-UP ACTIONS  
A. Issues and Lessons  
B. Recommended Follow-up Actions  

APPENDIXES (examples)

1. Project-related Data (project costs and financial plan, forecast versus actual)  
2. Results and Ratings for Contributions to Private Sector Development and ADB Strategic Development Objectives  
3. Updated Design and Monitoring Framework  
4. Sector Review  
5. Environmental Impact  
6. Social Impact  
7. Financial Statements, Projections and Project Risks  
8. Reevaluation of the Financial Internal Rate of Return (FIRR) and Weighted Average Cost of Capital (WACC)  
9. Reevaluation of the Economic Internal Rate of Return (EIRR)  
10. Operations Review

\[1\] These appendixes are not mandatory, and in the case of NSOs with financial intermediaries, the level of data required will be much less than for infrastructure projects.
SAMPLE FORMAT OF THE PPER COVER AND PRELIMINARY PAGES

A. Sample of Front Cover of Project Performance Evaluation Report

ADB

Project Performance Evaluation Report

CONFIDENTIAL

Loan No: {   }
Project No: {   }
Reference Number: {   }
(Month Year)

{Short Country Name}: {Name of Project}

This report contains information that is subject to disclosure restrictions agreed upon between ADB and the relevant sponsor or recipient of funds from ADB. Recipients should therefore not disclose its content to third parties, except in connection with the performance of their official duties. ADB will make publicly available an abbreviated version of this report that will exclude confidential information.

Independent Evaluation Department

Asian Development Bank
B. Sample of Inside Front Cover

CURRENCY EQUIVALENTS

Currency Unit – Sri Lanka rupee/s (SLRe/SLRs)

<table>
<thead>
<tr>
<th></th>
<th>At Appraisal</th>
<th>At Project Completion</th>
<th>At Operations Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>(September 1987)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SLRe 1.00 =</td>
<td>$0.0332</td>
<td>$0.0182</td>
<td>$0.0139</td>
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<tr>
<td>$1.00 = SLRs 30.17</td>
<td>SLRs 54.84</td>
<td>SLRs 71.95</td>
<td></td>
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</tbody>
</table>

ABBREVIATIONS

- ADB  – Asian Development Bank
- EIRR – economic internal rate of return
- FIRR – financial internal rate of return
- IAG  – Infrastructure Agency of the Government
- IEM  – Independent Evaluation Mission
- PPP  – public–private partnership
- XARR – extended annual review report (for private sector investment operations)

GLOSSARY

WEIGHTS AND MEASURES

NOTES

(i) The fiscal year (FY) of the Government ends on __________.
(ii) In this report, “$” refers to US dollars.

Key Words

Independent Evaluation Department, IED

Standard conflict of interest statement to be inserted here, if required.
C. Sample of Basic Project Data

**BASIC DATA**
Project Title (Investment No(s).- Country)

**Client etc.**
- Investee
- Intermediary etc

<table>
<thead>
<tr>
<th><strong>Key Project Data ($ million)</strong></th>
<th><strong>As per ADB Loan Documents</strong></th>
<th><strong>Actual</strong></th>
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</thead>
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<tr>
<td>Total Project Cost</td>
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<tr>
<td>ADB Investment:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Committed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disbursed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Committed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disbursed/Returned</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guarantee:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount of Debt Cofinancing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount of Equity Cofinancing</td>
<td></td>
<td></td>
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<tr>
<td>Debt: Equity Ratio at Completion</td>
<td></td>
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<tr>
<td>Supplementary ADB Investment</td>
<td></td>
<td></td>
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<tr>
<td>Supplementary Cofinancing</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Key Dates**

<table>
<thead>
<tr>
<th><strong>Expected</strong></th>
<th><strong>Actual</strong></th>
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</thead>
<tbody>
<tr>
<td>Screening</td>
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<tr>
<td>Appraisal</td>
<td></td>
</tr>
<tr>
<td>Preliminary Investment Negotiations</td>
<td></td>
</tr>
<tr>
<td>Board Approval</td>
<td></td>
</tr>
<tr>
<td>Final Negotiations and Investment Agreements</td>
<td></td>
</tr>
<tr>
<td>Investment Project Completion</td>
<td></td>
</tr>
<tr>
<td>Extended Annual Review Report (XARR)</td>
<td></td>
</tr>
<tr>
<td>Latest Annual Monitoring Report</td>
<td></td>
</tr>
<tr>
<td>Latest Portfolio Risk Monitoring Report</td>
<td></td>
</tr>
<tr>
<td>Latest Private Sector Investment Management (PSIM) Note</td>
<td></td>
</tr>
</tbody>
</table>

**Financial and Economic Internal Rates of Return (%)**
- Financial Internal Rate of Return (Project FIRR)
- Financial Rate of Return on Equity
- Economic Internal Rate of Return (EIRR)

**Project Administration and Monitoring Dates Notes**
- Contract Effectiveness
Disbursements
Implementation Monitoring Missions
Independent Monitoring Missions
XARR Mission
PPER Mission
Others (including exit, final repayment, workout transfer)

\[\text{Delete headings that are not applicable.}\]
INTERNAL CIRCULATION MEMORANDUM – FORMAT FOR NONSOVEREIGN PPERs

[Date]

To: Directors General, []
Country Director, []

Through: Director, IED2

From: [], IED2

Subject: Investment []; Loan []; [Investee Company]
Draft Project Performance Evaluation Report
—Request for Comments

Attached is the draft project performance evaluation report (PPER) for this project. The PPER contains information that is subject to disclosure restrictions agreed upon between ADB and the relevant sponsor or recipient of funds from ADB. Recipients of this PPER should therefore not disclose its content to third parties, except in connection with the performance of their official duties, and only on a similarly confidential basis. Please forward your comments by [Date].

Appendix

cc: Directors General, IED, PSOD, RSDD, SPD, [RD concerned]; Head, ORM; [General Counsel; Treasurer; Chief Economist; Controller; DG, OFSMD; and Head, OCO as required]
Directors, PSOD concerned
IED Central Files
Chrono File; Project File
INTERNAL CIRCULATION MEMORANDUM – FORMAT FOR FINAL NONSOVEREIGN PPER

[Date]

To: Board of Directors

President

From: []

Director General, IED

Subject: [Country]: [Project Name/Title]
—Project Performance Evaluation Report

1. On {date}, this report and its circulation were approved by {Director General, IED} {or} {Director, IED (1 or 2)}, in strict compliance with {the business processes for an independent Operations Evaluation Department, which became effective on 1 January 2004, as specified in the Board paper, Enhancing the Independence and Effectiveness of the Operations Evaluation Department (R263-03).} {or} {the Guidelines to Avoid Conflict of Interest in Independent Evaluations of the Independent Evaluation Department, revised December 2012}.

2. With its circulation to the Board and Management, a redacted report will be made publicly available following the disclosure requirements specified in the Public Communications Policy of ADB (R169-11). Before such public disclosure, Management is requested to inform IED within 1 week of this memorandum of any confidential commercial information that should be deleted in the document to be publicly released.

3. The {type of report} for {name of Project} in {country} was finalized following the normal interdepartmental review process in ADB as well as the consultation process with the {investee or sponsor(s), (as appropriate)}. IED has taken all feedback and comments received into consideration in finalizing the report, but has exercised its independent judgment in determining which comments to incorporate in the final report, with the goal of presenting an internally consistent and objective evaluation report. The report, as circulated simultaneously to Management and the Board, is final and is not subject to further revision.

4. On behalf of the Board, the Development Effectiveness Committee (DEC) has not planned to discuss the report at a meeting.

cc: Vice-Presidents, Administration and Corporate Management; Finance and Risk Management; Knowledge Management and Sustainable Development; Private Sector and Cofinancing Operations; Operations 1; Operations 2; Managing Director General; The Secretary; Directors General, PSOD, {RD concerned}; General Counsel; Senior Advisor, VPPC; Director, {PSOD Division concerned}; Senior Advisor, IEO; Advisor, IEO; Director, IED 2; {IED staff handling NSO evaluation and publication}; Chrono File; e-Star
[Address of Investee Company]

Dear [],

As part of the Asian Development Bank’s (ADB) accountability framework, the Independent Evaluation Department of ADB has prepared a project performance evaluation report (PPER) in connection with its investment [], loan [], and guarantee [] to [investee company] in [Country].

In accordance with ADB's Public Communications Policy, ADB is required to disclose to the public certain information and reports relating to its operations. However, ADB will not publicly disclose confidential information, or information that, if disclosed, would be likely to materially prejudice the commercial and financial interests and/or competitive position of the party that provided the information. Enclosed is a draft of the PPER. We would be grateful if you would review this draft and inform us if there is information in the PPER that is confidential or, if disclosed, would materially prejudice your commercial or financial interests and/or your competitive position and should therefore be redacted before the PPER is made publicly available by ADB.

Thank you for your assistance. If you have any queries in regard to the matters outlined above, please do not hesitate to contact [], IED.

Yours sincerely

[]
Director, IED

cc: Country Director
[] Resident Mission
EXTENDED ANNUAL REVIEW REPORT VALIDATION
(report template)

PROJECT BASIC DATA

<table>
<thead>
<tr>
<th>Project and Loan/Equity/Guarantee Number</th>
<th>XARR Circulation Date:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Name:</td>
<td>Approved ($million)</td>
</tr>
<tr>
<td>XARR Validation Date:</td>
<td>Actual ($million)</td>
</tr>
<tr>
<td>Country:</td>
<td>Total Project Costs</td>
</tr>
<tr>
<td>Sector(s):</td>
<td>ADB Loan/Equity/Guarantee (SDR equivalent, million)</td>
</tr>
<tr>
<td>Cofinanciers:</td>
<td>Total Cofinancing</td>
</tr>
<tr>
<td>Approval Date:</td>
<td>First Disbursement:</td>
</tr>
<tr>
<td>Signing Date:</td>
<td>Completion Date:</td>
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<tr>
<td>Project Officers:</td>
<td>[Names]</td>
</tr>
<tr>
<td>Location:</td>
<td>From (yr)</td>
</tr>
<tr>
<td>Validator(s):</td>
<td>Peer Reviewer:</td>
</tr>
<tr>
<td>Quality Reviewer:</td>
<td>Director:</td>
</tr>
</tbody>
</table>

Insert here the list of abbreviations used in this table.

I. PROJECT DESCRIPTION (summarized from the report and recommendation of the President [RRP] and project documents, and cite these sources)

A. Project Background
B. Project Features
C. Progress Highlights

II. PROJECT EVALUATION (Extended Annual Review Report [XARR] Assessment and Validation)

A. Development Results
B. ADB’s Additionality
C. ADB’s Investment Profitability
D. ADB’s Work Quality
E. Overall Assessment

Overall Ratings

<table>
<thead>
<tr>
<th>Overall Ratings</th>
<th>XARR</th>
<th>Independent Evaluation Department Review</th>
<th>Reason for Disagreement/Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Results</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADB’s Additionality</td>
<td></td>
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</tr>
<tr>
<td>ADB’s Investment Profitability</td>
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<tr>
<td>ADB’s Work Quality</td>
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<tr>
<td>Overall Assessment</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Quality of XARR</td>
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</tbody>
</table>

1 In case there remains a disagreement by the operations department on the ratings or certain key aspects of the XARR validation report (XVR), to ensure the transparency this may be presented in the final PVR (e.g., a footnote to the ratings section).
III. **ISSUES, LESSONS, AND RECOMMENDATIONS** (Validation of XARR Assessment)

IV. **OTHER ASSESSMENTS AND FOLLOW-UP**

A. Monitoring and Evaluation Design, Implementation, and Utilization (XARR Assessment and Validation)

B. Other Aspects (i.e., gender, governance, and anticorruption, as applicable (XARR Assessment and Validation)

C. Data Sources for Validation

D. Comments on XARR Quality

E. Recommendations for Independent Evaluation Department Follow-Up
INSTRUCTIONS FOR XARR VALIDATION

A. Overall Guidance

1. The page limit for the XARR completion validation report (XVR) is 8 pages letter size, font 11-point Arial). In the relevant sections of the XVR template (Appendix 7), the validator should provide a summary of the review of the XARR and then provide an independent assessment of project performance as based on the Guidelines for Preparing Performance Evaluation Reports on Nonsovereign Operations. In instances where the validator's assessment is different from that of the XARR, the rationale presented in the XVR may need to be more detailed than where the IED assessment matches that of the XARR.

B. Basic Project Data

2. A table format is provided in Appendix 7.

C. SECTION I: Project Description

3. Description of borrower/investee, project rationale, project outputs and components, financial structure, and ADB's participation (copied or summarized from the RRP) should be provided with sufficient detail to make clear what facilities that project funds were intended to be spent on. Note that certain flexibility can be given to the subheadings, as RRP formats have changed over time. Using project documents, describe the progress of project implementation. No evaluation is needed in this section—only description.

D. SECTION II: Project Evaluation (XARR Assessment and Validation)\(^1\)

4. Development Results. This section should assess whether the XARR gives a fair assessment of the development outcomes of the project, specifically the level of project (i) contributions towards private sector development and ADB strategic development objectives; (ii) economic performance; (iii) environment, social, health, and safety (ESHS) performance; and (iv) business success, using component ratings of excellent, satisfactory, less than satisfactory, or unsatisfactory.

5. ADB's Additionality. The section should assess whether the XARR gives a fair assessment of the level of additionality derived from ADB participation over the entire project cycle, specifically whether (i) ADB financing was a necessary condition for the timely realization of the project; and (ii) ADB's contributions to the project design and functioning improved development results, using the ratings of excellent, satisfactory, less than satisfactory, or unsatisfactory.

6. ADB's Investment Profitability. The section should assess whether the XARR discussion on ADB profitability is complete and fair, whether reasons for deviations from planned performance are adequately described, and whether an adequate comparison is made between estimated and actual financial returns to ADB using the ratings of excellent, satisfactory, less than satisfactory, or unsatisfactory.

7. ADB's Work Quality. The section should assess whether the XARR gives a fair assessment of ADB's performance in (i) project screening, appraisal, and structuring; and (ii)

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\(^1\) In assessing the ratings, follow the Evaluation Rating Standards for Nonsovereign Operations (Appendix 1 of the Guidelines for Preparing Performance Evaluation Reports on Nonsovereign Operations).
Appendix 8

project monitoring and supervision, using component ratings of excellent, satisfactory, less than satisfactory, or unsatisfactory.

8. **Overall Assessment.** The validator should provide an overall assessment of project performance in accordance with the PPER Guidelines. In those instances where the IED assessment is different from that of the XARR, the validator should provide the rationale for the difference. In case there is insufficient evidence available from the XARR or other readily available sources to arrive at a conclusion on a criterion rating, then an "Unable to validate rating" (UVR) can be an option for the criterion with sufficient justification. The overall project could then be rated as "less than successful," which will stand until such time when IED can evaluate the project by means of a project performance evaluation report or by other means.

E. **SECTION III: Issues, Lessons, and Recommendations (Validation of XARR Assessment)**

9. **Issues and Lessons.** This section should state agreement or disagreement with any or all of the XARR's lessons, without repeating all of those lessons. Additional lessons and reworded XARR lessons, can be presented in the XVR. Lessons should be important positive and negative aspects of the project experience that the validator considers most pertinent to potential similar projects in the sector or in the country.

10. **Recommendations.** This section should state agreement or disagreement with any or all of the XARR's recommendations, without repeating all of those recommendations. The XVR may list, if necessary, additional recommendations or reworded XARR recommendations. Recommendations should be matters clearly derived from the project experience that require further action by ADB.

F. **SECTION IV: Other Assessments and Follow-up**

11. **Design and Monitoring Framework—Relevance, Implementation, and Utilization.** The validator should assess the following:
   (i) Design—The extent to which the project design and monitoring framework set appropriate performance targets and indicators given expected project impacts and the reasonable availability of data;
   (ii) Implementation—The extent to which pertinent data were actually collected;
   (iii) Utilization—The extent to which the data collected were used to inform decision making and assess project success.

12. The discussion should assess the XARR’s treatment of these aspects and, where necessary, address these issues further.

13. Other Aspects, i.e., safeguards, including gender, governance, and anticorruption, as applicable.

14. **Data Sources for Validation.** Indicate the sources used in conducting the validation. In addition to the XARR itself, references may include the following:
   (i) Reports and recommendations of the President (RRPs), legal documents, technical assistance completion reports (TCRs) (if relevant);
   (ii) Summary of discussions of Investment Committee Meeting and discussion of ADB Board of Directors;
(iii) Board reports, progress reports, benefit monitoring and evaluation reports, and/or other survey-type reports;
(iv) Supervision reports, including midterm review or progress reports, and back-to-office reports of the XARR Mission;
(v) IED evaluations of previous projects, including XARR validations;
(vi) Communications with project officers, writers of the XARRs, and executing agency staff.

15. **Comments on XARR Quality.** The following criteria will be used to comment on the quality of the XARR, and to provide an overall assessment. The thresholds for the overall assessment are described in the table.

### XARR Quality

<table>
<thead>
<tr>
<th>Overall Assessment</th>
<th>Highly Satisfactory</th>
<th>Satisfactory</th>
<th>Less than Satisfactory</th>
<th>Unsatisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall rating thresholds</td>
<td>Requires excellent rating for criteria (i), (ii), and (iii) and satisfactory for criteria (iv) and (v)</td>
<td>Requires satisfactory rating for criteria (i), (ii), and (iii) and minimum of less than satisfactory for criteria (iv) and (v)</td>
<td>Any less than satisfactory rating for criteria (i), (ii), or (iii)</td>
<td>Any unsatisfactory rating for criteria (i), (ii), or (iii)</td>
</tr>
<tr>
<td>(i) Quality and completeness of evidence and analysis to substantiate ratings</td>
<td>Excellent</td>
<td>Satisfactory</td>
<td>Less than satisfactory</td>
<td>Unsatisfactory</td>
</tr>
<tr>
<td>(iii) Plausibility of assumptions underlying economic and financial analyses, including calculations of economic internal rates of return (EIRRs), financial internal rates of return (FIRRs), and assumptions on project sustainability</td>
<td>Excellent</td>
<td>Satisfactory</td>
<td>Less than satisfactory</td>
<td>Unsatisfactory</td>
</tr>
<tr>
<td>(iv) Quality of lessons identification and recommendations</td>
<td>Satisfactory</td>
<td>Less than satisfactory</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(v) Clarity and internal consistency of the PCR/XARR</td>
<td>Satisfactory</td>
<td>Less than satisfactory</td>
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</tr>
</tbody>
</table>

16. **Recommendations for Independent Evaluation Department Follow-Up.** This section should comment on the need for a project performance evaluation report (PPER) or other IED study later on, considering factors such as the quality and depth of the XARR and issues or aspects that may require independent evaluation at a later stage. It should be considered that, with the introduction of this XARR validation process, the preparation of a PPER will be limited to special cases.
## EVALUATION RATINGS SUMMARY, TEMPLATE FOR PPERS

### Table A9.1: Alternative for Evaluation Report Summaries
(optional use in executive summary)

<table>
<thead>
<tr>
<th>Indicators/Ratings</th>
<th>Unsatisfactory</th>
<th>Less than Satisfactory</th>
<th>Satisfactory</th>
<th>Excellent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development results</td>
<td>×</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADB Additionality</td>
<td>×</td>
<td></td>
<td></td>
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<tr>
<td>ADB Investment Profitability</td>
<td></td>
<td></td>
<td></td>
<td>×</td>
</tr>
<tr>
<td>ADB Work Quality</td>
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<td>×</td>
</tr>
</tbody>
</table>

### Overall Rating

<table>
<thead>
<tr>
<th>Unsatisfactory</th>
<th>Less than Successful</th>
<th>Successful</th>
<th>Highly Successful</th>
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<tbody>
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</tbody>
</table>

ADB = Asian Development Bank.

### Table A9.2: Alternative for Detailed Summaries or Main Texts
(mandatory use in main text)

<table>
<thead>
<tr>
<th>Indicators/Ratings</th>
<th>Unsatisfactory</th>
<th>Less than Satisfactory</th>
<th>Satisfactory</th>
<th>Excellent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Results</td>
<td>×</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Contributions to Private Sector Development and ADB Strategic Development Objectives</td>
<td></td>
<td></td>
<td>×</td>
<td></td>
</tr>
<tr>
<td>(ii) Economic Performance</td>
<td>×</td>
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<td></td>
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<tr>
<td>(iii) Environmental, Social, Health, and Safety Performance</td>
<td></td>
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<td>×</td>
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<tr>
<td>(iv) Business Success</td>
<td>×</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADB Additionality</td>
<td>×</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADB Investment Profitability</td>
<td>×</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADB Work Quality</td>
<td>×</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Screening, Appraisal, and Structuring</td>
<td>×</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) Monitoring and Supervision</td>
<td>×</td>
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</table>

### Overall Rating

<table>
<thead>
<tr>
<th>Unsatisfactory</th>
<th>Less than Successful</th>
<th>Successful</th>
<th>Highly Successful</th>
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</table>

ADB = Asian Development Bank.
## RESULTS AND RATINGS FOR PROJECT CONTRIBUTIONS TO PRIVATE SECTOR DEVELOPMENT AND ADB STRATEGIC DEVELOPMENT OBJECTIVES—INFRASTRUCTURE

<table>
<thead>
<tr>
<th>Results area</th>
<th>Actual achievements</th>
<th>Rating &amp; Justification</th>
<th>Potential future achievements</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Within company PSD effects</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1 Improved skills: New or strengthened strategic, managerial, operational, technical or financial skills.</td>
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</tr>
<tr>
<td>1.2 Improved business operations: Improved ways to operate the business and compete, as seen in investee operational performance against relevant best industry benchmarks or standards.</td>
<td></td>
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</tr>
<tr>
<td>1.3 Improved governance: As evident in set standards related to corporate governance, stakeholder relations, ESHS fields and/or energy conservation, and their implementation.</td>
<td></td>
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</tr>
<tr>
<td>1.4 Innovation: New or improved infrastructure design, technology, service delivery, ways to cover or contain cost, manage demand or optimize utilization, improved risk allocation between private company and government, financial structure, etc..</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>1.5 Catalytic element: Mobilizing or inducing more local or foreign market financing or foreign direct investment in the company.</td>
<td></td>
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</tr>
<tr>
<td>2. Beyond company PSD effects</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>2.1 Private sector expansion: Contribution by a pioneering or high-profile project that facilitates in its own right, or paves the way, for more private participation in the sector and economy at large.</td>
<td></td>
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</tr>
<tr>
<td>2.2 Competition: Contribution of new competition pressure on public and/or other sector players to raise efficiency and improve access and service levels in the industry.</td>
<td></td>
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</tr>
<tr>
<td>2.3 Demonstration effects: Adoption of new skills, improved infrastructure assets and services, more efficient processes, maintenance regimes, improved standards, risk allocation and mitigation beyond the project company.</td>
<td></td>
<td></td>
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<tr>
<td>2.4 Linkages: Relative to investments, the project contributes notable upstream or downstream linkage effects to business clients, consumers, suppliers, key industries etc. in support of growth.</td>
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<tr>
<td>2.5 Catalytic element: Mobilizing or</td>
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</tr>
<tr>
<td>Results area</td>
<td>Actual achievements&lt;sup&gt;a&lt;/sup&gt;</td>
<td>Rating&lt;sup&gt;b&lt;/sup&gt;</td>
<td>Justification</td>
<td>Potential future achievements&lt;sup&gt;c&lt;/sup&gt;</td>
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<tr>
<td>------------------------------------------------------------------------------</td>
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<tr>
<td>inducing more local or foreign market financing or foreign direct investment in the sector (beyond the company) through pioneering or catalytic finance.</td>
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</tr>
<tr>
<td><strong>2.6. Affected laws, frameworks, regulation:</strong> Contributes to improved laws and sector regulation for public private partnerships, concessions, joint ventures, and &quot;build-operate-transfer projects&quot; and liberalizing markets as applicable for improved sector efficiency.</td>
<td></td>
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</tr>
<tr>
<td><strong>3. Contribution to other ADB strategic objectives</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>3.1 Sector development (outputs):</strong> Contribution to other sector development outputs and outcomes not captured under point 2., such as capacity or network expansion, etc.</td>
<td></td>
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</tr>
<tr>
<td><strong>3.2 Sector development (outcomes):</strong> Contribution to other sector development outputs and outcomes not captured under point 2., such as increased infrastructure utilization or consumption, improved in-country connectivity, improved energy security, etc.</td>
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<tr>
<td><strong>3.3 Inclusion:</strong> Improved access to, availability or affordability of infrastructure services for the poor and other disadvantaged groups.</td>
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<tr>
<td><strong>3.4 Job creation:</strong> Creation of additional sustainable jobs or self-employment. Distinguish between jobs created within and beyond the company.</td>
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<tr>
<td><strong>3.5 Environmental sustainability:</strong> Project net impact on GHG emissions. Any other contributions to environmental improvements.</td>
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<tr>
<td><strong>3.6 Regional integration:</strong> Project contributions to regional cooperation and integration by facilitating trade, cross-border mobility, cross-border power supplies, etc.</td>
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<tr>
<td><strong>4. Overall Rating</strong>&lt;sup&gt;e&lt;/sup&gt;</td>
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</tbody>
</table>

<sup>a</sup> Achievements to be assessed for all result areas. Highlight (in bold font) achievements in areas that have been specifically referred to as project outputs, outcomes, and impacts in the report and recommendation of the President and the Design and Monitoring Framework for the project.

<sup>b</sup> The rating scale for is each results area is: Unsatisfactory, Less than Satisfactory, Satisfactory, Excellent, Not applicable. Consider already manifest actual outputs, outcomes and impacts (positive or negative). "Excellent" reflects a high level of achievement, usually exceeding targets. "Satisfactory" denotes a good level achievement in line with expectations and set targets. "Less than satisfactory" reflects a low level of achievement below expectations. "Unsatisfactory" reflects no achievement or significant negative effects. "Not applicable" should only be used, if the project report and recommendation of the President does not mention this aspect in its presentation of envisaged project development results, project justification, ADB's additionality, or the Design and Monitoring Framework itself, and if negative effects are not apparent.

ESHS = environmental, social, health, and safety; GHG = greenhouse gas; PSD = private sector development.

A rating of "Excellent" should only be used, if the project report and recommendation of the President does not mention this aspect in its presentation of envisaged project development results, project justification, ADB's additionality, or the Design and Monitoring Framework itself, and if negative effects are not apparent.
Consider potential for further achievements considering relevant developments in the medium-term or external to the project.

Assess risk to the realization of further potential achievements on a scale of high, medium, low. Add further explanations in the box, particularly if risks are assessed to be low.

The overall rating scale is: Unsatisfactory, Less than Satisfactory, Satisfactory, Excellent. The overall rating is not an arithmetic mean of the individual indicator ratings, and does not have fixed weights. It will be primarily based on the level of achievement of envisaged project outcomes as stated in the DMF, provided these and associated indicators are meaningful for contributing to envisaged development impacts in the Design and Monitoring Framework. See para. 10 in Appendix 1 for further guidance.
## RESULTS AND RATINGS FOR PROJECT CONTRIBUTIONS TO PRIVATE SECTOR DEVELOPMENT AND ADB STRATEGIC DEVELOPMENT OBJECTIVES—PRIVATE EQUITY FUNDS

<table>
<thead>
<tr>
<th>Results Area</th>
<th>Actual achievements</th>
<th>Rating</th>
<th>Justification</th>
<th>Potential future achievements</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Fund and investee-level PSD effects</strong></td>
<td></td>
<td></td>
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<tr>
<td>1.1 Improved skills:</td>
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<tr>
<td>(i) Development of managerial, strategic and operational skills in investee enterprises (with support from fund manager).</td>
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<tr>
<td>(ii) Improved skills in private equity deal structuring, instruments, and ways to invest that the fund staff can apply in follow-on funds, or when joining new private equity groups or other financial institutions.</td>
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<tr>
<td><strong>1.2 Improved standards and business practices:</strong></td>
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</tr>
<tr>
<td>(i) Improved ways of operating businesses and competing</td>
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<tr>
<td>(ii) Improved standards for corporate governance, transparency, stakeholder relations, ESHS, and energy conservation.</td>
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<tr>
<td><strong>1.3 Innovation:</strong> Introduction of innovative fund operations, or introduction of new products, services, processes or technologies by investee companies.</td>
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<tr>
<td><strong>1.4 Catalytic element:</strong> Improved debt or risk capital supply from local and foreign investors for fund and investee companies.</td>
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<tr>
<td><strong>2. PSD effects beyond fund and investee companies</strong></td>
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<tr>
<td>2.1 Private sector expansion:</td>
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<tr>
<td>Contribution by the fund to materially increasing the private sector share and role in the economy through support for privatizations or investments in new private sector-dominated industries.</td>
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<tr>
<td><strong>2.2 Competition:</strong> Contributions to new competitive pressures in key investee markets and/or in the financial sector for risk capital and finance.</td>
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<tr>
<td><strong>2.3 Demonstration effects:</strong></td>
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</tr>
<tr>
<td>Replication of new ways how funds or investee companies are operated, thereby supporting transformation of business sectors, industries or financial markets.</td>
<td></td>
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</tr>
<tr>
<td><strong>2.4 Linkages:</strong> Indications that,</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Results Area</td>
<td>Actual achievements(^a)</td>
<td>Rating(^b)</td>
<td>Justification</td>
<td>Potential future achievements(^c)</td>
<td>Risk(^d)</td>
</tr>
<tr>
<td>---</td>
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<tr>
<td>relative to size of investments, the fund adds notable upstream or downstream link effects to investee companies and/or financial markets</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>2.5 <strong>Catalytic element:</strong> Improved debt or risk capital supply from local and foreign investors to local companies and private equity funds in countries of fund operations or beyond. Fund contribution by: (i) improving supply of risk capital in the market, (ii) demonstrating the merits with private equity funds to the public, firms, banks and others, (iii) bringing liquidity to local stock exchanges with IPOs, (iv) helping a private equity industry take root and become more efficient along with maturing capital markets, (v) wider private equity expertise via migration of fund manager staff to other funds, etc.</td>
<td></td>
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</tr>
<tr>
<td>2.6 <strong>Affected laws, frameworks, regulation:</strong> Contribution to improved legal and regulatory private business or sector frameworks, or to improved financial sector regulation, such as by observed lobby activity. Fund manager reports on significant dialogue affecting reform.</td>
<td></td>
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<tr>
<td>3. <strong>Contribution to other ADB Strategic Objectives</strong></td>
<td></td>
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</tr>
<tr>
<td>3.1 <strong>Inclusion:</strong> (i) Improved access to or affordability of essential goods or services for the poor and other disadvantaged groups through activities of funded investee companies; or (ii) investee company activities generated mostly employment for such groups and/or and entrepreneurial opportunities through forward/backward linkages to the poor and other disadvantaged groups Improved availability of risk capital for inclusive businesses.</td>
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</tr>
<tr>
<td>3.2 <strong>Job creation:</strong> Investee companies, relative to size of investments, created significant levels of additional sustainable jobs or self-employment.</td>
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<td>3.3 <strong>Environmental sustainability:</strong> Contributions of</td>
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<tr>
<td>Results Area</td>
<td>Actual achievements&lt;sup&gt;a&lt;/sup&gt;</td>
<td>Rating&lt;sup&gt;b&lt;/sup&gt;</td>
<td>Justification</td>
<td>Potential future achievements&lt;sup&gt;c&lt;/sup&gt;</td>
<td>Risk&lt;sup&gt;d&lt;/sup&gt;</td>
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<tr>
<td>fund manager or investee companies to reductions in GHG emissions; the development, promotion or application of clean technologies, energy efficiency programs, or other investments involving climate change mitigation/adaption or other environmental improvements. Improved availability of risk capital for environmental businesses.</td>
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<td>3.4 Regional integration: Project contributions to regional cooperation and integration by facilitating trade, intraregional investments, etc.</td>
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<tr>
<td>3.5 Any other project development outputs and outcomes</td>
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<tr>
<td>4. Overall Rating&lt;sup&gt;e&lt;/sup&gt;</td>
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ESHS = environmental, social, health, and safety; GHG = greenhouse gas; IPO = initial public offering; PSD = private sector development.

<sup>a</sup> Achievements to be assessed for all result areas. Highlight (in bold font) achievements in areas that have been specifically referred to as project outputs, outcomes, and impacts in the report and recommendation of the President and the Design and Monitoring Framework for the project.

<sup>b</sup> The rating scale for is each results area is: Unsatisfactory, Less than Satisfactory, Satisfactory, Excellent, Not applicable. Consider already manifest actual outputs, outcomes and impacts (positive or negative). “Excellent” reflects a high level of achievement, usually exceeding targets. “Satisfactory” denotes a good level of achievement in line with expectations and set targets. “Less than satisfactory” reflects a low level of achievement below expectations. “Unsatisfactory” reflects no achievement or significant negative effects. “Not applicable” should only be used, if the project report and recommendation of the President does not mention this aspect in its presentation of envisaged project development results, project justification, ADB’s additionality, or the Design and Monitoring Framework itself, and if negative effects are not apparent.

<sup>c</sup> Consider potential for further achievements considering relevant developments in the medium-term or external to the project.

<sup>d</sup> Assess risk to the realization of further potential achievements on a scale of high, medium, low. Add further explanations in the box, particularly if risks are assessed to be low.

<sup>e</sup> The overall rating scale is: Unsatisfactory, Less than Satisfactory, Satisfactory, Excellent. The overall rating is not an arithmetic mean of the individual indicator ratings, and does not have fixed weights. It will be primarily based on the level of achievement of envisaged project outcomes as stated in the DMF, provided these and associated indicators are meaningful for contributing to envisaged development impacts in the Design and Monitoring Framework. See para. 10 in Appendix 1 for further guidance.
### RESULTS AND RATINGS FOR PROJECT CONTRIBUTIONS TO PRIVATE SECTOR DEVELOPMENT AND ADB STRATEGIC DEVELOPMENT OBJECTIVES—FINANCIAL INTERMEDIARIES (for SME financing)

<table>
<thead>
<tr>
<th>Results Area</th>
<th>Actual achievements</th>
<th>Rating</th>
<th>Justification</th>
<th>Potential future achievements</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Financial institution and sub-borrower PSD effects</td>
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<tr>
<td>1.1 Improved skills:</td>
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<tr>
<td>(i) Improved SME credit skills in the participant financial institution(s).</td>
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<tr>
<td>(ii) Contribution via the participating financial institution(s) to improved subborrower skills in operation of their businesses, e.g., via appropriate loan conditions, advisory services by the bank(s).</td>
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<td>1.2 Improved standards:</td>
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<tr>
<td>Improved standards and practices with regard to corporate governance and transparency, stakeholder relations, or ESHS in participating financial institutions or sub-borrowers.</td>
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<tr>
<td>1.3 Innovation:</td>
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<tr>
<td>Innovative ways of offering effective banking services to SMEs (including new products, services, and technologies)</td>
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<tr>
<td>1.4 Catalytic element:</td>
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<tr>
<td>Mobilizing or inducing more local or foreign market financing or foreign direct investment for the supported financial institution or sub-borrowers.</td>
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<tr>
<td>1.5 Improved business performance.</td>
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<tr>
<td>Expanded SME lending with good portfolio and subborrower performance. Expansion of market share.</td>
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<tr>
<td>2. PSD effects beyond financial intermediaries and subborrowers</td>
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<tr>
<td>2.1 Private sector expansion and institutional impact:</td>
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<tr>
<td>2.1.1 Contribution to an increased private sector share and role in the economy.</td>
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<tr>
<td>2.1.2 Contribution to expanded SME lending in the financial system.</td>
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<tr>
<td>2.1.3 Improved SME access to formal credit and banking services in the economy.</td>
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<tr>
<td>2.2 Competition:</td>
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<tr>
<td>Enhanced</td>
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<tr>
<td>Results Area</td>
<td>Actual achievements</td>
<td>Rating</td>
<td>Justification</td>
<td>Potential future achievements</td>
<td>Risk</td>
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<tr>
<td>competition in SME market segment among local banks or other types of financial institutions (including new product and service offerings, local-currency products) and/or contribution to increased competition in key subborrower markets.</td>
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<tr>
<td>2.3 Demonstration effects: Replication of new ways of offering effective banking services to SMEs by other banks or institutions.</td>
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<tr>
<td>2.4 Linkages: Contribution to local savings and deposit mobilization via networks of participant bank(s); contribution to notable upstream or downstream link effects to subborrowers' businesses in their industries or the economy.</td>
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<tr>
<td>2.5 Catalytic element: Contribution to mobilization of other local or international financing for financial institutions with SME business, and by positive demonstration to market providers of debt and risk capital to SMEs.</td>
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<tr>
<td>2.6 Affected laws, frameworks, regulation: Contribution to (i) improved laws, regulation, and inspection affecting SME financing; or (ii) a more enabling environment for SMEs via lobby activity, policy dialogue, or otherwise.</td>
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<tr>
<td>3. Contributions to other ADB strategic objectives</td>
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<tr>
<td>3.1 Inclusion: Increased availability or reduced cost of financial services for the poor and other disadvantaged groups. Indirect inclusion benefits generated by subprojects/borrowers through forward/backward linkages to poor, female, or rural entrepreneurs; the provision of services or products for the poor, women, and rural populations; and employment of such groups.</td>
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<td>3.2 Job creation: Creation of additional sustainable jobs or self-employment. Distinguish between jobs created within</td>
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<tr>
<td>Results Area</td>
<td>Actual achievements&lt;sup&gt;a&lt;/sup&gt;</td>
<td>Rating&lt;sup&gt;b&lt;/sup&gt;</td>
<td>Justification</td>
<td>Potential future achievements&lt;sup&gt;c&lt;/sup&gt;</td>
<td>Risk&lt;sup&gt;d&lt;/sup&gt;</td>
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<tr>
<td>supported FI, sub-borrowers and beyond.</td>
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<tr>
<td>3.3. <strong>Environmental sustainability</strong>: Contribution to reductions in GHG emissions other environmental improvements through relevant lending policies and practices, and, targeting/allocations for borrowers with environmentally beneficial investments.</td>
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<tr>
<td>3.4. <strong>Regional integration</strong>: Project contributions to regional cooperation and integration by facilitating trade or cross-border financial transactions.</td>
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<tr>
<td>3.5 <strong>Any other project development outputs and outcomes</strong></td>
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<tr>
<td>4. Overall Rating&lt;sup&gt;e&lt;/sup&gt;</td>
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ESHS = environmental, social, health, and safety; FI = financial institution; GHG = greenhouse gas; IPO = initial public offering; SME = small and medium enterprise; PSD = private sector development.

<sup>a</sup> **Achievements to be assessed for all result areas.** Highlight (in bold font) achievements in areas that have been specifically referred to as project outputs, outcomes, and impacts in the report and recommendation of the President and the Design and Monitoring Framework for the project.

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<sup>c</sup> Consider potential for further achievements considering relevant developments in the medium-term or external to the project.

<sup>d</sup> Assess risk to the realization of further potential achievements on a scale of high, medium, low. Add further explanations in the box, particularly if risks are assessed to be low.

<sup>e</sup> **The overall rating scale is:** Unsatisfactory, Less than Satisfactory, Satisfactory, Excellent. The overall rating is not an arithmetic mean of the individual indicator ratings, and does not have fixed weights. It will be primarily based on the level of achievement of envisaged project outcomes as stated in the DMF, provided these and associated indicators are meaningful for contributing to envisaged development impacts in the Design and Monitoring Framework. See para. 10 in Appendix 1 for further guidance.
BUSINESS SUCCESS AND PERFORMANCE INDICATORS FOR FINANCIAL INSTITUTIONS

1. Business performance and prospects of the supported financial institution should assess the likelihood that the institution will continue to effectively serve its target markets, will maintain a sound balance sheet and financial condition, and will generate sufficient profits to sustain and grow its operations.

2. The analysis should be conducted along two dimensions: (i) achievement of its business goals including success of the business line(s) or market segment(s) targeted by the ADB project, if any; and (ii) profitability, soundness, and viability of the financial institution itself.

3. Where applicable, success in the business line(s) targeted should be assessed based on growth in lending to the target market, level, and trend of the financial institution’s market share, and credit spreads less provisions and loan losses.

4. For the financial institution itself, the analysis should focus on the success and viability of the institution as a whole, to be assessed according to the criteria of solvency, liquidity, profitability, and efficiency as outlined subsequently. Special attention should be given to the accounting practices and corporate governance of the institution. Other financial sector entities, such as credit rating agencies or fund management companies, should be assessed according to the normal criteria applicable to all private sector companies. This will include factors like management quality and profitability included below, but will not be subject to the same guidelines.

5. To the extent feasible, the assessment should be based on officially available data and analyses, including (i) audited financial statements of the financial institution, (ii) assessments by the regulator or bank supervisory authority in the country concerned, (iii) ratios calculated and ratings assigned by reputable credit rating agencies, and (iv) financial sector reviews of other international organizations and international financial institutions. Where the assessment by the evaluator differs materially from one of these sources, or where there are significant divergences among the sources, a concise explanation of the differences observed and justification for the approach chosen must be provided.

6. All indicators should consider the adequacy of the financial institution’s accounting policies with regard to such elements as interest accrual, loan provisioning, evaluation of off-balance sheet items and derivatives, etc. Where the policies of the institution are not in line with internationally accepted accounting standards, adjustments to ratios should be made to reflect the figures that would prevail if such standards had been applied.

A. Assessment of Business Performance of Supported Financial Institution

7. For a satisfactory rating for targeted financial market transactions, the following criteria need to be met:

(i) Growth in lending or other types of financial assistance to the target market should meet appraisal targets and exceed general lending or assistance volume of the bank.

(ii) The market share of the financial institution in the target market should meet appraisal targets and be higher than before the project.
(iii) Loan spreads minus provisions and loan losses should be equal to those expected at appraisal, and on par with other market segments served by the bank after allowing for the relative riskiness of each type of lending.

(iv) For guarantee operations, fees collected minus realized and expected losses (called guarantees after deduction of recoveries from sources such as counter-guarantees or collateral), should be equal to appraisal expectations, and on par with other market segments served by the institution, where applicable.

(v) For private equity funds, the projected or realized FIRR of the subprojects or investees of the fund should be equal to or greater than the Funds’ Weighted Average Cost of Capital (FWACC).

8. For nontargeted financial market transactions, a satisfactory rating requires the realized and expected future ability to effectively serve its markets and support reasonable growth in operations. This implies a strong capital base, low problem assets, competent and conflict-free management, adequate earnings, a sound balance sheet, well-managed growth, reasonable dividends, and the ability to raise new capital. Specific factors to be considered in this respect for deposit-taking institutions are detailed below.

B. Assessment of Financial Performance of Supported Financial Institution

1. Capital

9. The key indicator is the current and projected future capital adequacy ratio (CAR), in absolute terms and compared with market peers. This also takes into account the quality of capital, notably the proportion of Tier I capital and the proportion of common shares plus retained earnings, plus potential adjustments that may be needed for factors such as low level of provisioning, inadequate risk weightings, intangible assets, or derivatives and off-balance sheet commitments.

10. The latest standards promulgated under the Basel III capital adequacy regime call for the following minimum ratios in relation to risk-weighted assets (RWAs). While Basel III applies to globally active banks, it represents the best internationally agreed upon effort to set quantitative guidelines for the difficult task of assessing bank performance and soundness. As such, it should form the basis for all bank assessments, though simplified measures or assumptions may be used for banks supported by ADB where necessary.

**CAR standards**

(i) Common Equity ÷ RWAs ≥ 3.5%
(ii) Tier 1 capital ÷ RWAs ≥ 4.5%
(iii) Total capital ÷ RWAs ≥ 8%

11. Based on the phase-in arrangements of Basel III, the above minimum Common Equity ÷ RWAs ratio and minimum Tier 1 ÷ RWAs ratio may be increased to 4.5% and 6.0%, respectively, starting in 2015. As and when this is the case, the above CAR standards should be adjusted accordingly.

12. Depending on the availability and quality of data, and the practices adopted by the banking supervisor in the country concerned, the evaluation should consider all three or one or two of the above CAR ratios,

13. There has been considerable debate over the appropriate risk-weightings for different types of assets. For indicative purposes, the following risk-weightings are currently considered
appropriate, depending on the nature and risk rating of the borrower (where available). The evaluator may rely on official estimates of CARs to the extent that the risk-weightings used are broadly consistent with the guidelines below:

**Claims on Sovereigns:**
(i) AAA to AA-: 0%
(ii) A+ to A-: 20%
(iii) BBB+ to BBB-: 50%
(iv) BB+ to B-: 100%
(v) Below B-: 150%
(vi) Unrated: 100%

**Claims on MDBs and IFIs:** 0%

**Claims on Banks:**
(i) Option 1: Use sovereign rating minus one category:
   - AAA to AA-: 20%
   - A+ to A-: 50%
   - BBB+ to B-: 100%
   - Below B-: 150%
   - Unrated: 100%
(ii) Option 2: Use credit rating of the bank
   - Short-term (<3 months)
     - AAA to BBB-: 20%
     - BB+ to B-: 50%
     - Below B-: 150%
     - Unrated: 20%
   - Long-term (>3 months)
     - AAA to AA-: 20%
     - A+ to BBB-: 50%
     - BB+ to B-: 100%
     - Below B-: 150%
     - Unrated: 50%

**Mortgages:**
(i) 35 % for residential properties occupied (or rented) by borrower and secured by first charge on property
(ii) 75% if the loan-to-value ratio exceeds 80%

**Unsecured Retail Portfolios:** 75% up to 100%

**Claims on Corporates:** discretion to weigh all corporate claims at 100% or to use ratings based on:
(i) AAA to AA-: 20%
(ii) A+ to A-: 50%
(iii) BBB+ BB-: 100%
(iv) Below BB-: 150%
(v) Unrated: 100%

14. A core problem with CAR ratios is uncertainties regarding the adequacy, consistency, and comparability of risk weightings across countries. To remedy this, Basel III recommends
supplementing the CAR by a second, more straightforward, indicator, the **Leverage Ratio**. This divides Tier 1 capital by the total, unweighted on- and off-balance sheet assets of the financial institution. Total assets include all loans net of specific provisions, plus any commitments resulting from derivatives, off-balance sheet items, or repurchase agreements. Under Basel III, disclosure of this ratio should become mandatory after 1 January 2015 for all globally active banks, with a minimum ratio of:

\[
\text{Tier 1 Capital } \div \text{Total Assets } \geq 3\%.
\]

15. This standard should be used as a benchmark along with the CAR to assess the adequacy of the bank’s capital base. A satisfactory overall rating for capital adequacy requires the bank to fulfil at least one of the three CAR targets with no substantive shortfall in the other two, and to meet or be on track toward the Basel III Leverage Ratio. If underlying information to calculate CAR in line with Basel III standards is not available, the bank’s capital should at least meet or exceed regulatory requirements.

2. **Asset Quality**

16. For all earning assets—including loans, fixed-income securities, and off-balance sheet items—the analysis should review credit quality based on:

- (i) Growth trend of assets vs. peers and macroeconomic conditions;
- (ii) Loan concentration by single client or group, type of borrowers, sector, currency, etc.;
- (iii) Maturity mismatch, foreign exchange risk or interest rate risk;
- (iv) Systemic risks related to loan portfolio;
- (v) Strength of portfolio management system;
- (vi) Level and trend of nonperforming loans (NPL) or other nonperforming assets (NPA), including basis for NPL classification and particularly high exposure to any sector or borrower;
- (vii) Financial institution’s efforts to reduce NPL/NPA;
- (viii) Adequacy of the level of provisions.

17. Problem assets should be less than 10% of capital for a satisfactory rating, while problem assets exceeding 25% of capital will generally lead to an unsatisfactory rating.

C. **Management**

18. The assessment should cover

- (i) Qualification and experience of directors, managers, and key staff;
- (ii) Corporate governance, including quality of monitoring by the board and existence of independent audits;
- (iii) Organizational structure;
- (iv) Adequate credit assessment and risk management policies, operating systems, and procedures;
- (v) Effective control of insider lending and related-party transactions;
- (vi) Responsiveness to central bank regulations and concerns;
- (vii) Staff recruitment and training.

D. **Earnings (profitability)**

19. The following factors are to be considered:
(i) Profitability: return on average assets, return on average equity, net income, net interest margin;
(ii) Provision burden: provisions/net interest income;
(iii) Income stability: net interest income vs. noninterest income (e.g., fees and commissions, foreign exchange gains, securities trading gains);
(iv) Operating expenses: trend and share of interest receivable;
(v) Indicators of declining loan quality: excessive growth, high concentration, related party lending, weak credit procedures, poor pricing, frequent restructurings;
(vi) Stock performance of financial institution, if listed.

20. For a satisfactory rating, the financial institution should generate sufficient and predictable earnings to cover potential losses, provide adequate capital, and pay reasonable dividend.

E. Liquidity

21. According to Basel III, the following two ratios should be estimated and monitored. While Basel III applies to globally active banks, it represents the best internationally agreed-upon effort to provide quantitative guidelines for assessing bank performance and soundness. As such, it should form the basis for all bank assessments, though simplified measures may be used for banks supported by ADB where necessary.

22. **Liquidity Coverage Ratio** intends to promote resilience to potential liquidity disruptions over a 30-day horizon by ensuring that banks have sufficient unencumbered, high-quality liquid assets to offset the net cash outflows they could encounter under an acute stress scenario, involving, e.g., a downgrade of its credit rating, a partial loss of deposits, a loss of unsecured wholesale funding, or substantial calls on committed credit facilities. The standard will apply from 1 January 2015 to global banks, but will be monitored prior to that and provides a good indicator of liquidity risk for all banks:

   Standard: Stock of high-quality liquid assets ÷ Total net cash outflows over the next 30 days ≥ 100%

23. **Net Stable Funding Ratio** requires a minimum amount of stable sources of funding relative to the liquidity profile of the assets as well as the potential for contingent liquidity needs (for example arising from off-balance sheet commitments) over a 1-year horizon. The aim is to limit overreliance on short-term wholesale funding and encourage better assessment of liquidity risk across all on- and off-balance sheet items. The standard applies from 1 January 2018 to all global banks, though observation starts before and it is relevant for all banks:

   Standard: Available amount of stable funding ÷ Required amount of stable funding ≥ 100%

24. For both the Liquidity Coverage Ratio and the Net Stable Funding Ratio, the evaluation should rely on officially published calculations that are consistent with Basel III principles. Where these are not available, the evaluation should either make its own estimates, or where this cannot be reliably done, use available data and judgment to assess whether the fundamental objectives—liquidity coverage and funding stability—are satisfactorily met.
25. For a satisfactory rating, the institution must have sufficient liquid assets to meet loan demand and unexpected deposit withdrawals, with limited reliance on the interbank market and adequate contingency plans for stress situations.
FINANCIAL AND ECONOMIC RATE OF RETURN CALCULATIONS

1. **Scope.** This appendix discusses the calculation of financial and economic rates of return. The review of financial return calculations is limited to general comments; the main focus is on the calculation of the economic internal rate of return (EIRR) on evaluated nonsovereign projects. The appendix also refers to the financial and economic rates of return on invested capital (ROIC and EROIC), which are used when a project-specific return cannot be calculated. Specific rating standards are presented in Appendix 3.

2. **Concepts.** The financial internal rate of return (FIRR) and the return on invested capital (ROIC) reflect the financial returns and costs of a project or enterprise and are based on actual performance and projections. FIRR and ROIC can then be compared against a project’s weighted average cost of capital to assess its financial viability. The EIRR or EROIC calculation reflects the actual quantifiable economic benefits and costs realized at the time of evaluation and as projected, based on informed assessment of the prospects and risks.

3. **Methodology.** These notes do not include detailed guidance for financial and economic return calculations for private sector operations. The ADB guidelines for evaluation of public sector operations are relevant in part for NSOs in regulated infrastructure and utility projects. A project-specific FIRR and EIRR can be calculated for operations that allow identification of incremental costs and benefits or returns from an investment project. In other cases, EROIC or ROIC for financial return calculations may be used as a proxy.

4. **Approach Paper Discussion.** The approach paper or plan for the evaluation should address the approach and methodology for calculating economic and financial returns. This discussion should take into account the approach and calculations used at the time of project approval and in any extended annual review report (XARR) prepared before the evaluation. Justifications should be given for retaining or changing the approach and methods.

5. **Attribution of Economic Costs and Benefits to the Project.** A critical element in estimating the economic return of a project or enterprise is an assessment of the “without-project” scenario. Experience suggests that “without-project” outputs are frequently underestimated, i.e., the attribution of incremental benefits to the project exceeds what can be justified in the light of what would reasonably have happened without the project. This risk may occur when quantifying significant benefits beyond the project or enterprise (positive externalities), or when adverse “beyond-project” impacts (negative externalities such as environmental damage) might be underestimated.

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1 These notes include in part some adaptations to relevant sections in ADB. 2006. *Guidelines for Preparing Performance Evaluation Reports for Public Sector Operations*. Manila.

2 ROIC is the financial return on a discounted basis over the projected period on all capital employed by the enterprise, regardless of the funding source and cost. The discounting therefore excludes depreciation, debt service, and dividends. EROIC is the economic version of ROIC, and it can be calculated by making economic adjustments to the financial ROIC cash flows. The adjustments may include subsidies and taxes, and may also change revenues to border prices for internationally traded goods and services, or apply willingness-to-pay concepts in regulated sectors such as power. Other adjustments may be made for market distortions, for certain economically scarce or abundant factors, or to quantify positive or negative externalities. For general guidelines on economic analysis refer to ADB. 1997. *Guidelines for the Economic Analysis of Projects*. Manila.


6. **Sensitivity Tests.** Sensitivity tests that adjust key assumptions and make material modifications to financial cash flows and economic return analyses should be included in the evaluation. These assumptions may include effects of regulatory influence compared with the base-case assumptions at approval. Similarly, the assumed pace of market liberalization or improved financial sector regulation may have a critical influence on the project outcomes.

7. **Least-cost Analysis.** The least-cost analyses carried out at appraisal should be reexamined, and if practical and relevant, a new assessment undertaken. These circumstances may arise in regard to large capital-intensive, regulated, or offtake-based private sector infrastructure projects in power, transport, telecommunications, or municipal utility sectors.

8. **Reasonableness of Conclusions.** In many cases the economic return can be quite high or extremely low. This may arise if the evaluated project and its business performance are extraordinarily good and the market is liberalized and efficiently regulated, or vice versa. Arriving at defensible conclusions on the level of project EIRR or EROIC may be possible in these cases by making simple adjustments to the financial flows. In other cases, more detailed adjustments may be warranted to reflect substantial price distortions or subsidies, or when a project is on the borderline between two rating categories. Alternatively, where data or resource constraints prevent economic benefits and costs to be quantified, these impacts may be reflected in parts of the evaluation that assess private sector development and/or environmental impact.

9. **Commenting on Major Deviations.** The evaluation report should summarize the reasons for differences between the evaluated financial and economic returns, differences between appraisal estimates and the actual results, and differences to returns identified in any prior XARR. Reasons for differences might include (i) demand variations due to changing macroeconomic conditions, new competition, and/or regulation; (ii) changes in the scale, phasing, or scope of the project business concept; (iii) investment cost overruns and/or implementation delays; (iv) changes in managerial capacity; (v) deviations in capacity utilization, productivity, and operating costs; (vi) unforeseen technical and environmental aspects, including mitigation costs; and, more generally, (vii) under- or overestimated risks in these or other key dimensions.

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5 Cost-effectiveness analysis seeks to select alternative concepts or technologies for economic minimum-cost production.