



European Investment Bank

Development Impact Assessment Framework of Investment Facility Projects

The Investment Facility was set up under the Cotonou Partnership Agreement between the EU and the ACPs as a risk-bearing instrument for promoting the private sector in the ACPs, with risk pricing as an instrument to ensure its viability. At the same time the Investment Facility has a clear development objective. This document outlines ways to better assess how Investment Facility Operations contribute to the Cotonou Agreement's objectives. In a pragmatic and holistic approach the Development Impact Assessment Framework outlines the focus on seven areas; the financial, economic, social and environmental performance, governance, and contribution to the Investment Facility strategy and to the Millennium Development Goals to make a judgement on the development impact of individual projects.

Development Impact Assessment Framework of IF Projects*

I. Background

With about half its members officially on the list of “Least Developed Countries” (LDCs) and many more at a low level of development, the ACP group includes the majority of the poorest countries in the world. Over the past ten years, this reality has pushed the international community to increasingly focus its efforts on the overarching objective of reducing poverty¹, which is also the central objective of the Cotonou Agreement. This has implications on what is expected of development institutions, and the IF.

In particular, while there is a presumption that projects in the ACP countries will typically have a significant development impact (because of the economic status of these countries) there is also an expectation on the part of stakeholders (Commission, Member States, beneficiary countries, NGOs) that IF operations would yield substantial social benefits and improve the welfare of the poorer segments of the population. Indeed, by financing productive and economically and financially viable projects, the IF contributes to economic growth, which, as is widely recognised, is a prerequisite for poverty alleviation. Academic research also recognises that no sustainable poverty reduction can be achieved without substantial economic growth.

Private sector projects in particular, which are the primary focus of the IF, can make a powerful contribution to poverty reduction if the policy context is appropriate,² by their direct contribution to economic growth. The accelerated economic growth that is necessary to achieve the Millenium Development Goals (MDGs) and, just as importantly, to sustain them over time, can only be driven by the private sector. Because of the pressure of competition - to which it is difficult to subject the public sector - private sector investment tends to make an efficient use of resources, raising employment and incomes. Furthermore, incremental incomes can be taxed, providing resources for the sustainable financing of direct poverty alleviation measures (income transfers and/or provision of goods and services to the poor)³.

The importance of growth as a major contributing factor to sustainable poverty reduction – and hence the contribution made by EIB financed private sector projects – can hardly be overemphasised. It is commonly stated that growth is a necessary but not sufficient condition for poverty reduction. This is analytically correct – one can think of instances where growth can be associated temporarily with increases in poverty due to, say, the transitional negative impact on employment of trade liberalisation or privatisation.

There is substantial empirical evidence which shows that economic growth in developing countries is usually also beneficial for the poorest segment of population. Furthermore, even if the poor benefit less than proportionately from economic growth, they stand a much better chance of benefiting from some growth rather than from no growth at all or from per capita income decline. In the latter two cases, reductions in poverty would have to rely exclusively on income redistribution policies. Such policies, however, have been largely unsuccessful in improving the lot of the poor sustainably within a context of economic stagnation or decline.

From a methodological point of view, however, there was always a challenge for the IFIs to demonstrate this link accurately between various individual projects and their exact impact on the host countries. While various impacts and notably the social impact of projects is, in principle, amenable to quantification in the

* This framework is designed for direct lending operations. For financial sector operations (e.g. global loans) a modified version will be produced soon and will take into account specific features of this type of intervention.

¹ And tackling its many dimensions as reflected in the Millenium Development Goals.

² Getting the policy context right will often require macroeconomic, structural and institutional reforms, together with the provision of adequate infrastructure, etc., that will create an environment conducive to investment and productivity growth. In many ACP countries this is far from being achieved and this affects negatively the chances of reducing poverty through growth. Whilst being acutely aware of this –such problems are encountered in the Bank’s day to day operations – the existence of an appropriate policy context is assumed here to better illustrate the link between growth and poverty reduction.

³ A distinction is made here between poverty reduction and alleviation. The first occurs when economic activity allows people to move out of poverty. The second consists of measures taken to provide for the basic needs of people who remain poor.

framework of Cost-Benefit Analysis⁴ (CBA) or the calculation of an Economic Rate of Return (ERR), this is very difficult in practice and, indeed, there are few cases where the Bank and other development institutions have carried out such an analysis in a comprehensive manner.

A more pragmatic and holistic approach, which complements the fundamental ERR analysis, has already been adopted by other Multilateral Development Banks and IFIs⁵ and comprises a set of relevant development impact indicators or criteria against which to assess the impact of individual projects. Such a multidimensional and mostly qualitative approach can be seen as a proxy for the more ambitious and rigorously integrated CBA.

More concretely, **what purpose do we expect this updated development impact assessment to serve?**

- To induce project appraisal teams (loan officers, project engineers and economists) and management to more explicitly articulate the positive (or negative) development impact of any given project under consideration.
- To thus fill an information gap and put the IF in a position to report (to Management, to the Commission, to the IF Committee and even to the public at large) on the expected impact of individual projects as well as of the overall portfolio.
- To build a relevant foundation for monitoring and ex-post evaluation work.
- To provide guidance with respect to the selection and design of projects. Indeed, beyond credit risk considerations, an explicit assessment of the development impact of projects could play a useful role in helping set lending priorities. In practice, this could sometimes lead to redesign, delay or simply rejection of projects. While projects that have a marginal but acceptable ERR may be given a relatively low priority (particularly when the use of scarce resources such as grants or local currency are being considered) they should not necessarily be rejected; indeed in the difficult economic climate of ACP countries there are only so many good projects, and the IF will need to achieve a balance between those projects with a high social impact and “ordinary” projects with no “bells and whistles” but which, nevertheless, have a solid ERR and a good risk-reward profile.
- To establish a basis which could justify more favourable financing terms. When granted, such subsidies should be used to support improvements in the design of projects to enhance their development and notably social impact or to finance valuable projects that might not otherwise be able to pay full market rates (i.e. projects with a particularly high ERR but relatively low IRR).

In other words, the strategic objective of this exercise is to enforce a more systematic, comprehensive, transparent and pragmatic approach in assessing the development impact of IF projects. It comes as a natural evolution of the existing EIB methodology and experience, benefiting from the current review of development impact assessment methods both in academia and within the IFIs which are working at better harmonising their approaches. The Bank will of course participate in such an effort.

II. The Rationale for the New Development Impact Assessment Framework

The Bank has been a development partner and has supported projects in ACP countries for more than 25 years. Its activity in this part of the world is justified by the impact these projects have on development. Clearly, to accomplish this target, one must be able to assess and understand the various development impacts which may arise during the project cycle. Hence, the EIB project appraisal procedure examines not only the private return generated by the investments the Bank helps support, but also the broader impact of the project on society as a whole. In fact, meeting the EIB's existing top-of-the-line environmental, social

⁴ Using distributional weights.

⁵ The International Finance Corporation (IFC), the Asian Development Bank (ADB) and DEG have already developed similar methodologies, which were reviewed extensively by the authors of this paper.

and governance performance standards makes in itself an important contribution to the development impact of the project.

To ensure rigour in the process, the appraisal team's economic evaluation regularly uses social cost/benefit analysis for the project assessments, with costs and benefits assessed from the perspective of society as a whole. Social cost/benefit results are then summarized in the calculation of an ERR of the project. This practice has and continues to serve the EIB well. Several potential projects have been modified or even cancelled when it was found that, under the project as initially proposed, the return to society as a whole from the investment was not adequate, even though the private return may have appeared attractive.

However, over the years factors including environmental impact, social effects and aspects of governance and transparency have come to the fore of the developmental agenda. Other issues like the importance of the distribution of benefits and/or of the social utility function are becoming popular once again. All of them have rarely been properly incorporated in the ERR, thus not capturing the full (positive or potentially negative) impact of the projects supported by the Bank. Theoretically and broadly speaking, a comprehensive and accurate ERR calculation should summarise a long list of development impacts of a project. Notably, it should include:

- a) The profits received by the investors, as measured in the traditional IRR (and should be measured before taxes);
- b) The benefits of the employees measured as the wage differential from their opportunity cost and the value of the training they receive;
- c) The consumer benefits in terms of quality and price differential from the new product and service;
- d) Benefits for suppliers or producers of complementary goods and services which may observe an increased demand for their own products, and hence higher sales and profits;
- e) Benefits from the demonstration effects of the project as a consequence of producing some new product, or using better technology, management, etc;
- f) Environmental benefits and losses;
- g) Transfers to and from the society in terms of taxes, subsidies, tariffs, incentives, etc; and
- h) Multiplier effects, as impacts listed above are just the first round effects of the project. While these indirect effects are rarely counted and it is practically impossible to include them fully, they do exist and they should not be forgotten.

In principle, these costs and benefits are all quantifiable, although in practice this will sometimes be difficult or almost impossible. For example, while economic theory has developed methods to quantify the demonstration effect or technology transfer effect of a project, in practice this is impossible to measure. In such cases, a qualitative judgement of the value may need to be substituted for any quantitative estimate. More commonly, it may be possible to come up with a reasonable quantitative estimate of some cost or benefit, but in practice it is just not worthwhile to expand the effort due to its relatively small impact on the final valuation of the project.

For these reasons and given obvious resource implications, although an ERR analysis is required for all EIB projects, a comprehensive analysis is rarely performed. In practice, the ERR calculation has focused on adjusting the project's private costs and benefits by adding to (or subtracting from) the private revenue streams market distortion effects such as taxes, subsidies, tariffs and other transfers. Some environmental effects may also be considered and occasionally ERR analysis takes account of the opportunity cost of labour. Nevertheless, development impacts are potentially much broader and development impact is the objective of IF's support. It is thus important that these impacts be understood, assessed correctly and as rigorously as possible, and presented clearly to the management of the Bank and to the broader public if one is to expect support for what IF is doing.

III. The Proposed Methodology

The proposed methodology does not come to replace but rather to complete the existing development impact evaluation of IF projects. An ERR estimation should remain the basis of the economic evaluation of

projects and a solid socio-economic analysis should continue to be conducted⁶. The Development Impact Assessment Framework aims to define more precisely and formalise in a simple, efficient and systematic manner, in the project evaluation context, what “added value” or “doing good” means from an economic, environmental, social and governance perspective as a contribution to the overall development impact.

In practical terms, the project appraisal team will be required to provide a qualitative judgement (well-backed by an appendix of relevant statistics) in seven crucial project performance aspects, closely linked with the potential development impact and, based on them, to reach a conclusion on the overall project rating in terms of development implication. For each of these aspects, relevant statistics will be collected or estimated, on the basis of general and sector-specific checklists. Based on the judgement of the team, a qualitative rating will be given to each project to determine whether, for a given category, the project performance is *low*, *moderate*, *medium* or *high*. Again based on judgement, an overall rating will be given to the project as a whole, using the same rating scale. The project analyst(s) will of course be required to justify in qualitative terms, both the partial and the overall ratings, so that their judgement can in turn be subjected to scrutiny.

The establishment of a framework which would assign specific weights to each of the seven different performance aspects so as to aggregate them into an overall score could be an alternative to the proposed qualitative approach. However, despite its seemingly quantitative nature (which may be perceived as more “scientific”) such a methodology cannot avoid the problems of subjective judgement (e.g. how can one weight the environmental performance against the institutional performance or the social aspects of the project in a uniform and standardised way?), aggregation of heterogeneous factors (e.g. adding up of economic benefits with the IF strategic role), and may lead to unacceptable trade-offs (e.g. a project with an unacceptably low ERR, which although not comprehensive is a quantitative indicator based on a proven and widely accepted methodology, could be made to look good on the basis of softer indicators for which there are no recognised well-defined benchmarks). Instead, the proposed methodology suggests that the appraisal team (sector economists and engineers for categories⁷ 2 to 5 and 7, together with the loan officer for categories 1 and 6) have the liberty of weighting the different factors based on the idiosyncratic nature of each project and arrive at an overall rating based on judgment rather than an arbitrary mathematical formula.

More analytically, an additional fiche (see Appendix 1) will be presented in all project appraisal reports and will summarise the conclusions of the appraisal team on the following aspects:

- **Financial Performance:** Financial success is a key and precondition for achieving development in all projects. Bankrupt businesses are clearly not sustainable and can not deliver potential development benefits. On the contrary, the financial failure of a project has both direct and indirect negative implications for the development process of a country. The direct impact is related to project costs actually incurred (sunk costs) and the indirect impact to the negative image of a project failure both to the promoter and the country. Indeed, bankrupt projects have cost several developing countries more than a waste of valuable and scarce resources, it has cost them their reputation.

While projects which risk bankruptcy at the outset, obviously, will not be acceptable for EIB financing, one should also recognise that projects do not have the same financial strength. In fact, the remote possibility of a financial failure is always accommodated with the lenders seeking appropriate and sufficient guarantees/securities. From a development point of view however, and this is a major point of difference between private banks and IFIs, the financial strength of a project and the acceptability of financial risk should also be examined in light of the consequences of a project failure for the promoter and the host country.

- **Economic Performance:** Unless a project has a sustainable economic performance it will imply a waste of resources and consequently a negative development impact. That means that the IF excludes a

⁶ Despite its drawbacks, CBA remains the most scientifically valid method for the economic evaluation of projects and the basis of work for almost all major IFIs (AsDB, IFC, EBRD, etc). Given, however, that the CBA is not always comprehensive enough, the reasoning behind this exercise is that an ERR percentage may not be enough to summarise the development impact of IF projects.

⁷ See appendix 1 for descriptions of these categories

priori projects whose (discounted) economic value of costs exceeds the (discounted) economic value of benefits. Economic viability depends upon the sustainability of project effects. Projects are sustainable if their net benefits or positive effects endure as expected throughout the life of the project. Sustainable development is concerned also with distributional issues. When looking at the distribution of project effects and judging project social acceptability, it is important to determine who benefits and who pays the costs. Job creation, for example, is seen as socially desirable (although it is a cost from the point of view of the project) because it is one of the key channels for productive projects to reduce poverty in a sustainable way.

Far from the direct project effects, the economic performance of a project should also take into consideration distribution, spillover and multiplier effects which are almost impossible to quantify in their full extent. Sharing the benefits of economic growth has become a major issue in development. The antiglobalisation movement, in particular, has questioned the links between large-scale economic activity and smaller businesses of the poor. Features of an investment project that support increased economic activity in the local area will contribute to sustainable growth. This factor addresses the importance of a company commitment to the capture of local benefits within the local economy, including capacity building, technology transfer, training, financing support programmes for small and medium enterprises.

Demonstration effects are equally important. In difficult environments, where perceived risk is high and many opportunities are missed, successfully implementing one project may have significant positive implications for other possible projects, whether in the form of a demonstration effect, or through forward or backward linkages. Similarly, if a project is pioneering something in a country, particularly where markets are not developed, this may have important spillover effects on other projects in similar or different sectors.

- **Social Performance:** Distribution analysis is also related to the social performance of the project. It is increasingly recognized that people are the centre of development, and that development should be for all people. The concept of social dimensions captures the key elements of human perspective: including poverty reduction; enhancing the role of women in development; human resources development; and avoidance or mitigation of adverse impacts of development interventions on vulnerable groups which do not have the capacity to absorb such effects.

The social performance of a project is closely linked to community development. Local community participation in economic activity is another avenue for broadening the distribution of benefits of growth and for strengthening its sustainability. The participation of vulnerable, marginalised, or indigenous groups in particular can help lessen the inequalities that weaken an economy and can allow those groups to experience the benefits of economic activity more fully. This factor addresses the extent to which a company is committed to constructive and sustainable community development.

An example could be the case where private (and other productive) sector projects, mainly driven by self-interest of their promoters (and rightly so), include specific components (e.g. schools or hospitals benefiting the whole surrounding community or region) to deal with social problems beyond the normal scope of the project itself. This is typically because promoters endeavour to act in a socially responsible manner, ultimately in the broader interest of their project's image and, therefore, long-term sustainability. Such a case, which should not be expected to happen systematically (or even frequently), should be highlighted whenever present and to be encouraged whenever possible.

- **Governance/Institutional Aspects:** Governance and institutional aspects have become widely recognized as an important issue in developing countries. Weak governance discourages foreign investment in specific companies, reduces capital flows to developing economies in general, and can suppress information on a company's use of capital. Improvements to the investment climate, proper corporate governance, and support for firms that follow good practices contribute to development. In fact, recent research tends to demonstrate that there is a correlation between a company's approach to corporate governance and its risk profile, brand value, reputation, and ability to attract human and intellectual capital.

The evaluation of a project's institutional aspects should also include the issues of accountability and transparency. Transparency of information can reduce the potentially negative effects of economic activity, especially on local communities. It is also an important tool for helping local communities and for enabling those communities to benefit from potential opportunities arising from new investment activity. Transparency can also facilitate replication of good environmental, social, and corporate governance practices and contribute to more efficient decision-making by consumers, investors, regulators and policy makers.

Finally, the importance of institutional capacity building from the development point of view can hardly be overstated. The ability of a country to follow sustainable development paths is determined to a large extent by the capacity of its people and its institutions. The goal is to enhance the ability of a country or its principle economic actors to evaluate and address the crucial questions related to policy choices and modes of implementation among development options. In this respect, it is worth noting that IFs have the potential to bring about changes in the enabling environment and influence directly or indirectly the capacity building structures of developing countries. For example, the introduction of best practice environmental monitoring standards by a company may, in turn, result in these standards being adopted by the local environmental agency. Similarly, if a project financed or guaranteed by the IF triggers a reform of the legal framework that improves security and transparency for foreign investors, the Bank's intervention will have an obvious value added.

- **Environmental Performance:** The starting point of the evaluation of the environmental performance of the project is the fact that it should meet all EIB environmental and social policy and guideline requirements or has identified and agreed to an action plan to achieve compliance in a specific time frame. Beyond the acceptability of the environmental impact of the project, actively improving the environment and setting higher environmental standards in companies is an important objective for the Investment Facility. A company with sound environmental management is likely to minimize the potential negative impacts on the environment and local communities in the normal conduct of its business. Good environmental management will find ways to constructively address situations not explicitly foreseen in regulations or policies.

Given that the strongest effect that private investment can have is the creation of jobs, the health and safety standards and more generally the welfare of the labour force should also be points of reference in the environmental performance evaluation of a promoter and an IF project. Employment opportunities offering a safe, high-quality environment and medical care (including HIV/AIDS) make important contributions to reducing poverty and improving the quality of people's lives.

Finally, a company's own processes often constitute only a fraction of how an end product is created. A firm's suppliers can heavily influence the environmental or social effects deriving from creating a product and bringing it to end-users. Product stewardship, or embedding environmental principles in its products and services, can thus make an important development contribution by helping reduce the overall impact of a product. For example, should a company's products be significantly more environmentally friendly, either through lower impact or positive contribution, than those of competitors, it should be a major environmental plus in the performance of a project. The same should be the case also when a company extends its own exemplary product standards or services to its upstream vendors and downstream affiliates.

- **IF Strategic Role:** The ability of the IF to play a particular strategic role in the implementation of a project, a case of "special value added", should be always underlined when the project potential development impact is recorded. To start with, by offering local currency loans or financing instruments with risk-sharing features, directly reducing the risk (guarantees) or sharing it (equity, quasi-equity), the IF improves the financial structure of projects/companies and even, in some cases, makes projects happen that otherwise would have been too risky.

Another case can be IF operation in the poorest or post-conflict countries. These countries are perceived as high-risk and are therefore unattractive for private and more generally productive investment. There is therefore a presumption that financing (particularly long-term financing or risk capital) is particularly scarce and that the IF will clearly make a difference. Moreover, the presence of the IF is likely to be an important factor in giving comfort to other lenders and/or investors. A final point is that operating in such difficult countries is a political objective as such.

"Special value-added" can also be demonstrated in cases where there are conditions attached to the financing of IF projects (particularly those related to tariff studies or environmental, social and governance issues), or a technical assistance element provided during project conception or project appraisal, which usually push or commit companies and public sector promoters to go beyond their initial proposed standards.

Important synergies can additionally arise from coordination between the IF and other institutions (such as the Commission, the World Bank, local and national governments). While the former will focus on a project,

the latter will concentrate on policy and institutional aspects that could be important to make the project successful and to enhance its development impact. Complementary coordination, and harmonisation amongst IFIs are important to enhance the efficiency of their involvement.

Finally, as the quality of policies and institutions is probably the main driving factor in explaining development success or failure, projects are likely to have a stronger differential impact on development when they contribute to an institutional development and policy change. In certain cases of private sector projects or PPPs, IF involvement can have an impact in furthering private sector involvement or outright privatisation and in promoting regulatory and institutional changes which is worthwhile highlighting.

- **Contribution to Millennium Development Goals:** Given the IF focus on private sector or commercially managed public sector projects, it would often be difficult to directly relate the development performance of the IF projects to their contribution to the Millennium Development Goals. However, sometimes IF projects have a significant indirect contribution towards one or more of the MDGs and even more rarely this contribution comes in a direct way (e.g. projects in the water sector). These cases should be recorded as they have a particularly large development value and would clearly add a bonus to the overall development profile of a project.

IV. Mechanics of the Methodology

As already mentioned, high positive impact in all categories listed above is more than a simple yes-or-no issue. The four performance levels (low, moderate, medium, high) indicate a progression of sustainable practices. An indicative translation (not designed to be exhaustive) of what these categories might mean in practice is provided in the following table:

Performance Level	Development Benefits
High Performance	<ul style="list-style-type: none"> • The project generates a very good ERR (above 15%). • Handling of environmental and social issues materially exceeds EU required standards. Formalization of practices or other steps enables good practices on environmental, social, and corporate governance issues to leverage change broadly within a region, a sector, or a supply chain. • Throughout its economic activity, the project or company creates very large local or global benefits and shares the benefits accruing from its economic activity with the local community or groups that often fail to benefit from such activity. • Corporate governance attributes of the project are sufficiently advanced that they create spillover effects broad enough to change the behaviour of other businesses through demonstration of best practice. The company is actively engaged on many fronts in the dissemination of best practice. • IF involvement is both crucial and necessary both for the implementation of the project and the enhancement of the development profile of the project. IF provides leadership by operating in a high risk environment and giving comfort to other lenders and investors. • The project has a large direct or indirect contribution to one or more of the Millennium Development Goals and generates unusual development benefits for a private sector or commercially driven public sector project.
Medium Performance	<ul style="list-style-type: none"> • The project generates a good ERR (between 10% and 15%). • Handling of environmental or social issues materially exceeds EU required standards. • Throughout its economic activity, the project or company creates local or global benefits or helps spread the benefits accruing from its economic activity to the local community or to groups that often fail to benefit from such activity. • Corporate governance practices are good enough to affect positively the views of investors about investing in the country. • The IF can demonstrate a particular case of value-added by offering special financial instruments or operating in a particularly difficult economic or institutional environment. • The project has a direct or indirect contribution to one or more of the Millennium Development Goals.
Moderate Performance	<ul style="list-style-type: none"> • The ERR of the project is marginal but acceptable (about 10%). • The economic activity conducted by the project or the promoter is in accordance with accepted national and EU standards in terms of development impact or for mitigating minor potential environmental or social harm stemming from the activity. • The handling of environmental, social and institutional issues, although acceptable, could eventually improve. • Development implications could be higher and optimisation of economic activity benefits could be achieved.
Low Performance	<ul style="list-style-type: none"> • The ERR of the project is too low (lower than 10%). • The project may be in accordance with accepted national standards but is below accepted EU standards in terms of potential environmental, social and institutional impact stemming from the activity (Low performance may lead to a rejection of a project or its reconsideration under a concrete number of mitigating measures).

V. References

- “*Guidelines for Social Cultural Analysis*” produced by the Inter- American Development Bank, (http://www.iadb.org/sds/publication/publication_2531_e.htm).
- “*Guidelines for Social Analysis of Development Projects*” produced by the Asian Development Bank (http://www.adb.org/Documents/Handbooks/Poverty_Social/default.asp).
- “*Guidelines on the social compatibility of DEG business operations*” produced by the DEG (http://www.deginvest.de/english/home/company/our_mandate/guidelines_social/index.html).
- “*Instructions for Preparing an Expanded Project Supervision Report (XPRS)*” produced by the International Finance Corporation, (<http://ifcln1.ifc.org/ifcext/oeg.nsf/Content/xpsr>).
- “*Social Impact Assessment, International Principles*” produced by the International Association for Impact Assessment. (<http://www.iaia.org/Publications/SP2.pdf>).
- “*Social Analysis Sourcebook: Incorporating Social Dimensions into World Bank Operations,*” produced by the World Bank. (<http://www.worldbank.org/socialanalysis/sourcebook/>).
- “*UNEP Environmental Impact Assessment Training Resource Manual*” produced by the United Nations Environment Program (http://www.unep.ch/etu/publications/EIAMan_2edition_toc.htm).

IF Development Impact Indicators & Rating		
	Project:	Score
1	Financial Performance	<i>low, moderate, medium, high</i>
	Comment:	
2	Economic Performance	<i>low, moderate, medium, high</i>
	Comment:	
3	Social Performance	<i>low, moderate, medium, high</i>
	Comment:	
4	Governance / Institutional Aspects	<i>low, moderate, medium, high</i>
	Comment:	
5	Environmental Performance	<i>low, moderate, medium, high</i>
	Comment:	
6	IF Strategic Role	<i>low, moderate, medium, high</i>
	Comment:	
7	Contribution to MDGs	<i>direct, indirect</i>
	Comment:	
	Project Rating	<i>low, moderate, medium, high</i>
	Comment:	

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The role of this Appendix is to serve as a key, indicative, non-exhaustive checklist during appraisal and to summarise a number of relevant numerical as well as qualitative and quantitative statistics which are linked to the assessment of the seven crucial project performance aspects which determine the rating of the project in terms of development implication.

IF Development Impact Indicators Appendix

1	Financial Performance	Statistics	Comment
1	IRR	Number	(provide timeframe)
2	NPV	Number	(provide discount rate)
3	Debt/Equity Ratio	Number	
4	Debt Service Coverage	Number	
5	Return on Investment	Number	
6	Return on Equity	Number	
7	Promoter's track record	low, moderate, medium, high	
8	Sentitivity to shocks (including changes in policies)	low, moderate, medium, high	
	Financial Performance Score	low, moderate, medium, high	
	Comment:		
2	Economic Performance	Statistics	Comment
1	ERR	Number	(provide timeframe)
2	NPV	Number	(provide timeframe)
3	Employment generated	Number	(by category of labour)
4	Employment consolidated	Number	(by category of labour)
5	Local unemployment	Number	
6	Average wage as a % of minimum wage	Number	
7	Total subsidies received	Number	
8	Total taxes paid	Number	
9	Expenditure on training	Number	
10	Estimated consumer surplus	low, moderate, medium, high	
11	Diversification of local economy	low, moderate, medium, high	
12	Outsourcing & economic linkages	low, moderate, medium, high	
13	Technology transfer	low, moderate, medium, high	
14	Net currency effects	low, moderate, medium, high	
15	Contribution to Accessibility	low, moderate, medium, high	
16	Contribution to Public Infrastructure	low, moderate, medium, high	
17	Impact on competition	low, moderate, medium, high	
18	Contribution to Regional Cooperation & Integration	low, moderate, medium, high	
	Economic Performance Score	low, moderate, medium, high	
	Comment:		

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3 Social Performance Statistics		Statistics	Comment
1	Estimated number of affected people	Number	(describe positive or negative and magnitude of impact)
2	Migration / Resettlement impact	low, moderate, medium, high	
3	Poverty level in the region	Number	(e.g. GDP/capita or other)
4	Impact on the poorest decile of population	low, moderate, medium, high	
5	Quality of labour standards	low, moderate, medium, high	
6	Impact on women	low, moderate, medium, high	
7	Social and human capital generated	low, moderate, medium, high	
8	HIV/AIDS prevention programme	existent, non-existent	
9	Impact on disadvantaged/excluded groups (e.g. ethnic minorities, disabled, elderly, etc)	low, moderate, medium, high	
10	Contribution to social facilities	Number	Amount spent on schooling, medical assistance, food, etc.
	Social Performance Score	low, moderate, medium, high	
	Comment:		
4 Governance / Institutional Aspects		Statistics	Comment
1	Degree of executive board independence	low, moderate, medium, high	
2	Standards on information disclosure & reporting	low, moderate, medium, high	
3	Standards on financial transparency	low, moderate, medium, high	
4	Degree of consultation with affected communities	low, moderate, medium, high	
5	Impact on the existing legal framework	low, moderate, medium, high	
6	Partnership with private sector, civil society, national & local governments	low, moderate, medium, high	
	Governance / Institutional Aspects Score	low, moderate, medium, high	
	Comment:		
5 Environment, Health & Safety		Statistics	Comment
1	Location/Design impact*	A, B1, B2, C	
2	Construction impact*	A, B1, B2, C	
3	Operation impact*	A, B1, B2, C	
4	Products impact*	A, B1, B2, C	

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5	Quality of environmental management	low, moderate, medium, high	
6	Degree of environmental risk	low, moderate, medium, high	
	Environmental Performance Score	low, moderate, medium, high	
	Comment:		
6	IF Strategic Role	Statistics	Comment
1	Availability of Capital / Country Rating	Rating	
2	Special Country Situation	Yes / No	LDC/ post - conflict, etc
3	Special Financial Product	Yes / No	Equity / quasi-equity, etc.
4	Capacity building through TA	Yes / No	
5	Special loan conditions	Yes / No	
6	Cooperation / Cofinancing with other IFIs	Yes / No	
7	Local currency lending	Yes / No	
8	SME promotion	Yes / No	
9	Financial sector support	Yes / No	
10	Cooperation with local financial institutions	Yes / No	
	IF Strategic Role Score	low, moderate, medium, high	
	Comment:		
7	Millennium Development Goals	Statistics	Comment
1	Eradicate extreme poverty and hunger	direct/indirect	
2	Achieve universal primary education	direct/indirect	
3	Promote gender equality and empowerment	direct/indirect	
4	Reduce child mortality	direct/indirect	
5	Improve maternal health	direct/indirect	
6	Combat HIV/AIDS, Malaria and other diseases	direct/indirect	
7	Ensure environmental sustainability	direct/indirect	
8	Develop global partnership for development	direct/indirect	
	Contribution to MDGs Score	direct/indirect	
	Comment:		

* For environmental assessment the following categories apply

Category A: Low residual impact, if not positive

Category B1: Moderate adverse impact but acceptable with minor reservations

Category B2: Medium adverse impact but acceptable with major reservations

Category C: High adverse impact, not acceptable for EIB

GLOSSARY OF TERMS USED

Consumer surplus. Savings to existing consumers arising from the difference between what they are willing to pay for an output and what they will be charged with the project. Consumer surplus can arise when expanded supply is associated with a fall in price. It can also arise when the output price is regulated by government and set below the demand price.

Contingent valuation. A direct means of estimating willingness to pay based on stated preferences of consumers in the situation with the project. Contingent valuation estimates can be used to provide an estimate of the economic value of incremental nontraded outputs and inputs, especially those, such as environmental effects, for which there is no direct market information.

Current prices. Future price values that include the effects of expected general price inflation. When applied to all project inputs and outputs, they provide a project statement in current prices.

Demand price. The price at which purchasers are willing to buy a given amount of project output, or the price at which a project is willing to buy a given amount of a project input.

Discount rate. A percentage rate representing the rate at which the value of equivalent benefits and costs decrease in the future compared to the present. The rate can be based on the alternative economic return in other uses given up by committing resources to a particular project, or on the preference for consumption benefits today rather than later. The discount rate is used to determine the present value of future benefit and cost streams.

Distribution effects. An analysis of the net income effects of project costs and benefits on different project participants, including the difference between financial and economic values for project outputs and inputs. Distribution effects can refer to the net income effects between, at least, producers, users, and government, and sometimes workers and lenders, as well, for utility projects; to the particular net income effect for the poor; and to the net income effect for foreign and domestic participants.

Economic efficiency. A criterion for assessing an investment or intervention in an economy. An investment or intervention is said to be economically efficient when it maximizes the value of output from the resources available.

Economic rate of return (ERR). The rate of return that would be achieved on all project resource costs, where all benefits and costs are measured in economic prices. The ERR is calculated as the rate of discount for which the present value of the net benefit stream becomes zero, or at which the present value of the benefit stream is equal to the present value of the cost stream. For a project to be acceptable the ERR should be greater than the economic opportunity cost of capital.

Economic opportunity cost of capital. The real rate of return in economic prices on the marginal unit of investment in its best alternative use. This rate of return is estimated as the weighted average of the economic demand and supply price of capital, and therefore will be equal to the value of the marginal unit of investible funds to both investors and savers.

Economic viability. The assessment that increases in output produced by a project using the least cost method will recover costs, provide an additional required rate of return, and sustain effective production in the face of uncertainty and risk.

Environmental sustainability. The assessment that a projects outputs can be produced without permanent and unacceptable change in the natural environment on which it and other economic activities depend, over the life of the project.

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Environmental valuation. The estimation of the use and nonuse values of the environmental effects of a project. These valuations can be based on underlying damage functions for environmental stressors, identifying the extra physical costs of projects or the physical benefits of mitigatory actions. They can also be based on market behavior, which may reveal the value placed by different groups on avoiding environmental costs or enjoying environmental benefits.

Externality. Effects of an economic activity not included in the project statement from the point of view of the main project participants, and therefore not included in the financial costs and revenues that accrue to them. Externalities represent part of the difference between private costs and benefits, and social costs and benefits. Externalities should be quantified and valued, and included in the project statement for economic analysis.

Financial sustainability. The assessment that a project will have sufficient funds to meet all its resource and financing obligations, whether these funds come from user charges or budget sources; will provide sufficient incentive to maintain the participation of all project participants; and will be able to respond to adverse changes in financial conditions.

Incremental outputs and inputs. Incremental output is additional output produced by a project over and above what would be available and demanded in the without project situation. Incremental inputs are inputs that are supplied from an increase in production of the input over and above what would be produced and supplied in the without project situation.

Internal rate of return (IRR). The rate of return that would be achieved on all project costs, where all costs are measured in financial prices and when benefits represent the financial revenues that would accrue to the main project participant. The IRR is the rate of discount for which the present value of the net revenue stream becomes zero, or at which the present value of the revenue stream is equal to the present value of the cost stream. It should be compared with the opportunity cost of capital, or the weighted average cost of capital, to assess the financial sustainability of a project.

Least-cost analysis. Analysis that compares the costs of technically feasible but mutually exclusive alternatives for supplying output to meet a given forecast demand. The analysis should be carried out using discounted values over the life of a project, where possible, using the opportunity cost of capital as the discount rate. Such analysis is used to identify the least cost option for meeting project demand.

Market failure. The inability of a system of market production to provide certain goods either at all or at the optimal level because of imperfections in the market mechanism; or the inability of a system of markets to fully account for all costs of supplying outputs. Market failure results in the overproduction of goods and services having negative external effects and the underproduction of goods and services having positive external effects. Market failure occurs for different reasons, for example, inadequate information, inadequate capacity, regulation of the movement of labor and capital, or rent-seeking behavior by producers. The existence of market failure provides a case for collective or government action directed at improving efficiency.

Mutually exclusive project alternatives. Alternative technologies, locations, scales, or timing of project costs such that the selection of one option leads to the rejection of others. Mutually exclusive project alternatives can be compared to arrive at the best project design.

Net present value (NPV). The difference between the present value of the benefit stream and the present value of the cost stream for a project. The net present value calculated at the Banks discount rate should be greater than zero for a project to be acceptable.

Opportunity cost. The benefit foregone from not using a good or resource in its best alternative use. Opportunity cost measured at economic prices is the appropriate value to use in project economic analysis for valuing nonincremental outputs and incremental inputs.

Private goods. Goods characterized by very high levels of subtractability and excludability. Subtractability means that one person's consumption of the good reduces the quantity available to others. Excludability

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means that the producer can restrict use of the product to those consumers who are willing to pay for it, while excluding those who do not meet this or other criteria. Private goods can be produced under private ownership or under public ownership. Except under special circumstances, for example, production in conditions of natural monopoly and where the government lacks the capacity to regulate, production of private goods increasingly is undertaken under private ownership.

Producer surplus. The excess of the revenue received by a producer of a commodity over the minimum amount they would be willing to accept to maintain the same level of supply.

Project alternatives. Technically feasible ways of achieving a project's objectives. Project alternatives can be defined in terms of different possible locations, technologies, scales, and timings. It can also refer to alternatives between physical investments, policy changes, and capacity building activities. Consideration of project alternatives, and selection of the best alternative, should precede the assessment of economic viability.

Public goods. Goods characterized by very low levels of subtractability and excludability, by contrast with Private goods above. Low subtractability implies that a good is available to all consumers at the same time, and consumption by one consumer does not use up or reduce the supply available for another consumer. Low excludability implies that if a good is provided to a consumer in a defined region then other consumers in that region cannot be easily excluded from consuming the same good. An example of a pure public good is national security, which is available to all citizens of a country simultaneously. Several other goods are quasi-public, having low levels of subtractability and excludability. Public goods are generally provided under public ownership, although several can be provided, through contract and regulation, under private ownership.

Real exchange rate. The price of foreign currency in terms of domestic currency where the rate of exchange is adjusted for the relative value of actual or expected domestic and international inflation.

Relative prices. The future price value of an output or input relative to the price of another input or output, or to the prices of all goods and services in general. If all prices increase at the same rate, all prices will rise but relative prices will remain unchanged. If the price of an output or input increases either more slowly or faster than the prices of other goods in general, then there will be a relative price change.

Return to equity. The return on capital that will accrue to the owners of a project after all financial obligations to lenders, government, workers, and suppliers are met. It provides an indicator for assessing the incentive to investors to invest in a project compared with other uses of their funds.

Risk analysis. The analysis of project risks associated with the value of key project variables, and therefore the risk associated with the overall project result. Quantitative risk analysis considers the range of possible values for key variables, and the probability with which they may occur. Simultaneous and random variation within these ranges leads to a combined probability that the project will be unacceptable. When deciding on a particular project or a portfolio of projects, decision makers may take into account not only the expected scale of project net benefits but the risk that they will not be achieved.

Sensitivity analysis. The analysis of the possible effects of adverse changes on a project. Values of key variables are changed one at a time, or in combinations, to assess the extent to which the overall project result, measured by the economic net present value, would be affected. Where the project is shown to be sensitive to the value of a variable that is uncertain, that is, where relatively small and likely changes in a variable affect the overall project result, mitigating actions at the project, sector, or national level should be considered, or a pilot project implemented.

Subsidy. In the provision of utility services, the difference between average user charges and the average incremental cost of supply. A subsidy can be estimated in economic terms, using economic

costs of supply, or in financial terms using financial costs of supply. The economic effects of a subsidy include the consequences of meeting them through generating funds elsewhere in the economy. Subsidies need explicit justification on efficiency grounds, or to ensure access to a selected number of basic goods.

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Traded inputs and outputs. Goods and services where production or consumption affect a country's level of imports or exports. Project effects estimated in terms of traded goods and services can be measured directly through their Border price equivalent value the world price for the traded product for the country concerned, adjusted to the project location. Border prices for exported outputs can be adjusted to the project location by subtracting the economic cost of transport, distribution, handling, and processing for export measured at economic prices. Border prices for imported inputs can be adjusted by adding such costs to the project site. Outputs that substitute for imports can be adjusted by the difference in economic transport, distribution, and handling costs between the existing point of sale and the project site. Project inputs that reduce exports can be adjusted by the difference in economic domestic costs between the point of production and the project location.

Transactions costs. The costs, other than price, incurred in the process of exchanging goods and services. These costs include the costs of negotiating and enforcing contracts, and the costs of collecting charges for goods and services provided. The scale of economic and financial transactions costs can affect the market structure for a good.

Transfer payment. A payment made without receiving any good or service in return. Transfer payments transfer command over resources from one party to another without reducing or increasing the amount of resources available as a whole. Taxes, duties, and subsidies are examples of items that, in some circumstances, may be considered to be transfer payments.

Without and with project. The future situation without a proposed project and the future situation with the proposed project. The difference between these two situations constitutes the impact of the investment, policy change, or capacity building activities. To be distinguished from the situations before and after a project that do not allow for expected changes without the project.