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CEE Bankwatch Network
Comments and proposals on the EBRD's project level transition indicators

Introduction

CEE Bankwatch Network welcomes the review of the EBRD's project level transition indicators and the opportunity to provide input for this process. As we pointed out earlier this year in our publication Are We Nearly There Yet? Dilemmas of Transition After 20 Years of the EBRD's Operations[1], environmental and social sustainability has not been as strong a focus for the bank as it should be, given the social, environmental and economic challenges ahead in the transition region and globally. Our goal with these comments is to ensure that the EBRD does indeed "promote in the full range of its activities environmentally sound and sustainable development" as set out in Article 2(vii) of its mandate. At the moment it is far from clear that the bank is doing so, partly because of difficulties in accessing information about the results from individual projects eg. on pollution levels over the project period. However the problem also goes beyond this: The EBRD evaluation department has pointed out that, for environmental change resulting from the projects from 1996–2009, "cumulatively 24% of the evaluated projects were rated Substantial or Outstanding, while 53% achieved some environmental change. However, in 2009 no projects attained an Outstanding rating, which is cause for some concern."[2] The evaluation report also points out that the proportion of projects achieving 'some change' has been growing at the expense of other ratings, especially higher ones, in recent years.

Our comments focus on bringing environmental and social results into the transition indicators, while proposing to abandon a few of the indicators which have not in themselves been proven to add value in delivering positive social or environmental outcomes. We believe that the incorporation of social and environmental outcomes into the concept of transition is one way to ensure that people and the environment benefit more from the EBRD's investments and that these goals do not play second fiddle to the process-related goals of establishing market economies. While it is possible to argue that environmental and social indicators should be set up separately from transition indicators, we insist that **any transition worth pursuing must deliver clear development outcomes for people and the environment, and that separating environmental and social indicators from transition ones therefore makes little sense**: who is transition for, if it is not for the benefit of the transition region's people and environment?

Our comments are presented as follows: First we lay out some broad comments on the nine indicator categories proposed by the EBRD, then underneath each table with the sectoral indicators we provide sector-specific comments. We do not claim to have experience relating to all of the indicators, but mostly in the sectors with the most environmental and social impact, and we therefore concentrate on these sectors.

1 http://bankwatch.org/sites/default/files/Are-we-nearly-there-yet-EBRD.pdf
2 EBRD Evaluation Department: Annual Evaluation Report 2010 http://www.ebrd.com/downloads/about/evaluation/1006-1.pdf

Indicator categories

Competition	***Market Expansion***	***Private Ownership***	***Frameworks for Markets***
Greater competition in the project sector: Entry of a new player; Successful competitive tender awarded; Open and competitive tender awarded; Entry of a private operator; Entry of an independent supplier, generator or energy service provider; Expansion of a non-dominant market player; Increased market share; Indirect measures of greater competition (Decreased supply cost, Improved quality of good / services, Increased output efficiency); Increased volume of power traded on liberalised and competitive market; Increased level of the competition for the concession award; Entry of a new player / No. of operators increased / Additional licences / concessions issued; No. of operators increased / Additional licences / concessions issued; Less concentrated market shares; Improved / Increased backward linkages	Market expansion: Connection of more customers / Increased service area, Development of input suppliers (No. of local suppliers bidding for contracts increased, No. of contracts awarded to local suppliers increased); Integration of the economic activity (Opening of new markets to import / export, Enhancing distribution networks); ; Product expansion (Increased market share (e.g. private label brands, ….), Increased product quality supplied); Backward linkages (Improved contract terms with suppliers, Training and support to suppliers implemented, No. of suppliers receiving pre-financing assistance, Increased productivity / production of suppliers); Forward linkages (Distribution / Store network expanded, Relationships with customers improved, Increased no. of local distributors)	Private ownership: Completed PPP tender awarded; Outsourcing or tendering out of operations or contracts to private sector (government level); Full or partial privatization, Increased market share of privately owned companies; Written expression of government commitment to privatize; PPP tender successfully operating covering (Concession, Outsourcing, Maintenance)	Frameworks for markets: Elimination of cross subsidies; Signing of Public Service Contract; Cost-reflective tariffs achieved; Improved tariff methodology; Full / Partial cost-recovery tariffs achieved (fare-box ratio); Establishment of an independent regulator; Development and implementation of clear tariff methodology; Reform of subsidies / City to establish targeted income support programme to poorest households; Introduction of performance-based contracting; Development and / or implementation of a PPP strategy and / or concession legislation, Adoption of / Endorsement of a strategy to corporatisation (Unbundling of monopolist energy company, Commercialisation of ….); Allowing an independent supplier to allow a third party access; Prices to mark international prices; Transparent open tender process established; Unbundling of different lines of business; Efficiency measures (Increased cash collection rates, Reduced commercial and technical losses, Improved M&O efficiency); Transformation into a joint-stock company / corporation; Introduction / Expansion of the 'user pays' principle; Implementation / Adoption / Preparation of a legislation / policy / strategy for sector restructuring; Non-discriminatory / Equal access legislation adopted / implemented; Establishment of / Strengthening of autonomous regulator; Performance-based service contracts introduced; Sector financing reform approved; Development and / or implementation of a PPP strategy and / or concession legislation; No government interference with day-to-day management / operations; No major change to the concession agreement

Skills Transfer	***Demonstration of New Products***	***Demonstration of Successful Restructuring***	***Demonstration of New Financing Methods***	***Setting Standards for Corporate Governance and Business Conduct***
Transfer and dispersion of skills: Completion of training programmes for local staff and/or twinning programmes; Evidence of management skill transfer from western strategic sponsor to local management staff; Training programme for local graduates / Intern programme for local students established	Demonstration of new products: Outsourcing or tendering out of operations or contracts to private sector (company level); Introduction of first of a kind / limited carbon transaction; Introduction of new equipment or technology; Replication of ….; First of a kind financial instrument (Syndication, Project finance, other); New innovative packaging solutions introduced; New branded / private label products introduced; New higher-added value products introduced; Modern retail techniques introduced	Demonstration of successful restructuring: Cost improvements; Improved financial performance and revenue; Commercial and operational success of the project; Implementation of restructuring or business development plan / programme; Implementation of the Creditworthiness Enhancement Programme; Transformation into a joint-stock company / corporation; Replication of ….; Implementation of Management Informational Systems; Outsourcing of / Tendering out of non-core activities;	Demonstration of new financial methods: Replication of financing instruments with limited availability; First of a kind financial instrument, Replication of ….; Evidence of wider availability of financing to higher risk projects (i.e. start-ups, R&D, etc.)	Adoption of / Compliance with pre-defined standard; Procurement conducted on time and cost; Procurement conducted transparently and with no major complaints from other parties; Adoption and implementation of best practice corporate governance code; Disclosure of service performance against targets; Disclosure of key financials; Improved public consultation procedures and reporting of outcomes; Appointment of independent board members or representatives from the private sector; Adoption of / Compliance with pre-defined standard (accounting,environmental,other); Implementation of Management Informational Systems; Increased transparency / disclosure: (Disclosure of service performance against targets, Disclosure of key financials, Improved public consultation procedures, Compliance with 'Publish what you pay' principle); Corporate governance improvements (Appointment of EBRD board representative(s), Appointment of independent board member(s), Adoption of / Compliance with a Code of Conduct, Adoption of / Compliance with a Code of Ethics, Compliance with best corporate governance practice, Dividend Policy agreed / approved by shareholders, Minority shareholders protection policy adopted, Establish Audit Committee of the Board, Establish Remuneration Committee of the Board)

Social and environmental outcomes

The EBRD, as an institution mandated to promote sustainable development in the full range of its activities, has a duty to ensure that transition results in sustainable societies, and that the concept of transition is understood as having environmental and social sustainability at its heart. The challenge of climate change has added particular urgency to this goal. **However, achieving a market economy in itself is not sufficient to ensure environmental sustainability**. As we pointed out in our comments on the EBRD's country level transition indicators, in several projects such as the Tbilisi public transport project, the loans to ArcelorMittal in several countries and motorway construction projects, the sponsor has succeeded in introducing market practices, but the project has not resulted in environmental sustainability, and thus market-based indicators would not provide a sufficient picture of the success or otherwise of the project.

In our opinion it is crucial to **focus on real, on-the-ground outcomes of the EBRD's investments, and their effects on real people and the environment**, **ie. to focus on the 'ends' not only on the 'means'**. In contrast the EBRD transition indicators have a strong emphasis on the 'means' with very few indicators relating to the end results. While the category *Skills transfer* is welcome and head in this direction, it covers only a small part of the potential social impacts of a project. **Our first proposal is therefore to add a new category entitled *Environmental and social outcomes* to the indicator charts.** In our comments below we will provide examples of the kinds of indicators that could be included for each sector. **All projects must contribute significantly to this category.** The same environmental and social criteria should apply equally to the suppliers who are involved in the project or who are directly or indirectly affected by the project (as mentioned under column Market Expansion).

Private ownership
We propose to discontinue the category on private ownership and instead, for appropriate sectors, transfer references to private sector activity in the *Market expansion* category. This is for several reasons:

- Although private ownership is in many sectors a normal precondition for a market economy, its realisation does not in itself guarantee positive economic and social outcomes for the population. Privatisations or similar projects must be done well, and it would make sense to reward only *good quality* privatisations through such indicators. With the current criteria, even very badly carried out privatisations could 'get points' in the private ownership category (ie. those in which the company was very undervalued), as could poor value for money Public Private Partnerships (PPPs). However indicators on the corporate governance side – eg. On properly carried out bidding procedures - are partly developed already in the *Setting standards for corporate governance and business conduct* column, while those relating to the success of the company after privatisation are already covered in *Restructuring*. So by removing the private ownership column, the projects involving well done privatisations would still 'get points' for corporate governance and restructuring while avoiding giving 'points' for poorly carried out privatisations or PPPs.
- The categories *Market expansion* and *Private ownership* partly overlap, so having both categories as well as other very process-based (as opposed to outcome-based) ones like *Competition* and *Demonstration of New Products* can result in too many 'points' for projects that have no clear development or environmental outcomes.
- In certain sectors it is possible to become a highly advanced market economy without private ownership, eg. In water supply, rail passenger transport, energy production so it is not useful to set goals for transition countries that some advanced industrial economies do not fulfil themselves.

Demonstration of new products

We propose to discontinue this category as well, as it seems to focus on newness for the sake of newness and not because it brings clear positive outcomes for people and the environment.[3] In addition it does not seem to adequately take into account the findings of the EBRD's internal review on transition and the Besley report, which both identified 'demonstration effect' as a requirement that may prevent the EBRD from having a sustained impact in a certain sector in a certain country by requiring the bank to constantly be demonstrating something new. While this category of demonstrating new projects is slightly adjusted, the change does not seem adequate to overcome the disadvantages of the 'demonstration effect' requirement.

Setting standards for corporate governance and business conduct: These indicators are positive. However they should also be minimum conditions for the EBRD's involvement with a company and thus form a binding part of the finance contract if this is not the case already.

General Industry

Competition	***Market Expansion***	***Private Ownership***	***Frameworks for Markets***
Expansion of a non-dominant player in a concentrated market (up to three players), including through consolidation. **Indirect measures of greater competition:** A) Significant decreased prices/tariffs/rentals sector-wide B) Increased variety of products / services available sector-wide C) Increased quality of services / higher-added value products and services sector-wide	**Backward linkages:** A) No. or share of local suppliers outside of the project's entity increased B) Improved contract terms with suppliers (e.g. increased no. of long term contracts,….) C) Training and support to suppliers D) No. of suppliers receiving pre-financing assistance increased E) Increased productivity / production of suppliers F) Quality of supplied goods outside of the project's entity increased **Forward linkages:** A) Distribution network expanded B) Productivity/efficiency /quality of clients increased C) Increased training/support for customers/distributors (incl. financial)…	**Full or partial privatization (incl. through IPO/SPO)** Promoting financial success to start-ups (entrepreneurships)	**Adoption/implementation/improvements of legislation/regulations/institutions relevant to sector and associated with the project:** A) Energy Efficiency legislation adopted/implemented

Skills Transfer	***Demonstration of New Products***	***Demonstration of Successful Restructuring***	***Demonstration of New Financing Methods***	***Setting Standards for Corporate Governance and Business Conduct***
Evidence of management and/or operational skill transfer to local staff:	**New higher value-added products / processes/technologies introduced successfully**	**Commercial restructuring:**	**Successful introduction of new financing structures/approaches for a given sector:**	**Business conduct/standards improved (transparency / disclosure):**
A) Completion of training	**Evidence of sector-wide**	A) Improved profitability ratios (e.g. EBITDA)	A) Carbon financing	A) Adoption of / Compliance with pre-defined

[3] A recent example which illustrates this point is the Ombla hydropower plant, Croatia, currently under consideration by the EBRD. The EBRD justification for the transition impact of the project includes the point that it is a replicable innovative underground hydropower plant. Apart from our doubts about whether such a technically risky project is really replicable, it is highly undesirable from a nature protection point of view to construct underground dams in delicate karst habitats. Yet the project would presumably 'get points' for including a new innovation.

programmes for local staff and / or twinning programmes	**replication of new products and processes introduced by the project**	…		standard/plan that goes beyond prevailing national standards/practices (Accounting (IFRS/GAAP), Environmental (EAP/ESAP/ISO 14001), Industry quality/safety standards (BAT))
B) Evidence of management skill transfer from strategic sponsor to local management staff (No. of trained and type of skills)		**Operational restructuring / Efficiency improvements:**	B) Evidence of wider availability of financing to higher risk projects (i.e. start-ups, R&D, etc.)	B) Arm's length transactions' practice adopted / established
C) Training programme for local graduates / Intern programme for local students established		A) Capex plan successfully implemented		C) Public disclosure of key financials/shareholder structure
		B) Non-core assets spun-off C) Labour restructuring measured by output per employee D) Increased productivity / utilization E) EE performance improved F) Improvement in value added of products from capital expenditures G) Emission monitoring system implemented **Legal restructuring** A) Corporation / Holding established… **Evidence of sector-wide replication of restructuring**		D) Permits / Titles transparently obtained E) Audited financials **Corporate governance improvements:** A) Compliance with / Adoption and implementation of best corporate governance practice B) Separate management and Supervisory board established C) Minority shareholders protection policy adopted D) Independent director appointed E) Establish / Maintain Audit Committee of the Board F) Establish / Maintain Remuneration Committee of the Board G) Corporate Secretary established E) Dividend Policy agreed / approved by shareholders

Here we propose to:

- Discontinue the categories *Private ownership* and *Demonstration of new products,* and move *Promoting financial success to start-ups (entrepreneurships)* to *Skills transfer.*
- Under *Competition,* add an indicator*: Project company not subject to tax or environmental exemptions.*
- Under *Frameworks for markets,* add indicators on a) *legislation adopted/implemented on measuring, disclosing and limiting levels of air, water and soil pollution for all relevant pollutants* and *b) legislation in place in the company's country of registration (including parent companies) committing to "on request" automatically exchange tax-related information*
- Under *Demonstration of successful restructuring,* insert an indicator on the *Existence of effective social programmes* to ensure that people losing their jobs due to enterprise restructuring have access to re-training schemes and social support. Plus delete *labour restructuring* as it is not a good in itself but is one element contributing to *increased productivity*, which is already represented in the row below.
- Be more explicit on how subsidies would be reflected by this restructuring indicator. For example, as we asked in our comments on the country transition indicators, Fiat Serbia is a case of a company that probably would not exist without subsidies [4] – but would Serbia get positive points for

[4] Fiat Serbia was established in 2008 and is owned 67% by Fiat and 33% by the Serbian state. As one of the preconditions Serbia closed down production of the Zastava car and at the moment Fiat is temporarily using the existing facilities for assembling the Fiat Punto model. The Serbian state is subsidizing every car through a

restructuring the company and attracting investment, or negative points for heavily subsidising a private company? Or both? In our opinion subsidies to private companies should be limited to new sectors that are explicitly being encouraged to develop, such as renewable energy, not well-established sectors with high environmental impacts such as car production.

- Under *Demonstration of new financing methods*: *Carbon financing* is only useful when it results in concrete, absolute reductions in greenhouse gas emissions. Therefore we propose an adjustment to the indicator specifying: *Carbon financing resulting in clear absolute GHG emissions reduction*.
- Under *Setting standards...* include indicators on: a) *equal pay for equal work irrespective of gender* b) on *regular disclosure of information on pollution levels and changes since the start of the project* and c*) no use of tax havens or tax-favourable jurisdictions*
- Add an *Environmental and social outcomes* column including the following indicators:

Environmental and social outcomes
Significant reduction in energy intensity *(can be moved from Restructuring column)*
Significant increase in the use of renewable energy for production
Significant reduction in overall CO2 emissions
Significant reduction in material intensity of production
Significant reduction in waste produced
Significant increase in waste recycled or re-used
Decreased water usage
Compliance with EU environmental standards
Significant decrease in air/water/soil pollution
Number of direct jobs created/number of people re-employed after layoff/retraining scheme
Increase in gender equality/minorities employed
Increase in gender equality/minorities represented at senior management level
Decrease in accidents and deaths at work (where applicable)
All employees earning a living wage

Property and tourism

Competition	***Market Expansion***	***Private Ownership***	***Frameworks for Market***
Expansion of a non-dominant player in a	**Backward linkages:**	**Full or partial privatization (incl. through**	**Adoption/implementation/improvements of**

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scrapping scheme, with 1000 EUR/unit for an old car. Up to now more than 30 000 units have been sold. The Serbian state has also invested at least EUR 100 million in supporting infrastructure and the modernization of the existing facilities. The Serbian state is further subsidising the company though its social programme for former workers. At the beginning of 2011 the workers of Zastava were laid off. More than 1400 workers accepted the 'social programme' which means 300 EUR per year of experience plus re-training. The new company took over only 100 workers and 47 found work in another sub contracting company.

concentrated market (up to three players), including through consolidation.		**IPO/SPO)**	**legislation/regulations/institutions relevant to sector and associated with the project:**
Indirect measures of greater competition:	A) No. or share of local suppliers/subcontractors outside of the project's entity increased	**Increase in market share of production or services of privately owned companies relative to the state**	A) Increased efficiency / quality of property registration / land titling
A) Decreased prices/tariffs/rentals sector-wide	B) Improved contract terms with suppliers (e.g. increased no. of long term contracts,….)		B) Reduced costs / length of time to obtain construction permits
B) Increased variety of products / services available sector-wide	C) Training and support to suppliers		C) More transparent land acquisition process
C) Increased quality of services / higher-added value products and services sector-wide	D) No. of suppliers receiving pre-financing assistance increased		D) Energy Efficiency legislation adopted/implemented
	E) Increased productivity / production of suppliers		
	F) Quality of supplied goods outside of the project's entity increased		
	Forward linkages:		
	A) Large diversity of end-users attracted (e.g. minimum no. of retailers to lease premises)		
	B) Adequate share of local and international end-users achieved		
	C) Productivity/efficiency /quality of end-users increased		

Skills Transfer	***Demonstration of New Products***	***Demonstration of Successful Restructuring***	***Demonstration of New Financing Methods***	***Setting Standards for Corporate Governance and Business Conduct***
Evidence of management and/or operational skill transfer to local staff:	**New products / technologies introduced successfully**	**Commercial restructuring:**	**Successful introduction of new financing structures/approaches for a given sector:**	**Business conduct/standards improved (transparency / disclosure):**
A) Completion of training programmes for local staff and / or twinning programmes	A) New standard in terms of environmentally friendly / energy efficient properties to local market introduced	A) Improved profitability ratios (e.g. EBITDA)…	A) Successful syndication	A) Adoption of / Compliance with pre-defined standard/plan that goes beyond prevailing national standards/practices (Accounting (IFRS/GAAP), Environmental (EAP/ESAP/ISO 14001), Industry quality/safety standards (BAT/IATI))
B) Evidence of management skill transfer from strategic sponsor to local management staff (No. of trained and type of skills)	B) First of its kind building(s) opened (First class A warehouse, 3rd generation shopping mall ….)	**Operational restructuring / Efficiency improvements:**	B) First time private investors attracted	B) Audited financials disclosed
C) Training programme for local graduates / Intern programme for local students established	**Evidence of sector-wide replication of new products and processes introduced by the project**	A) Capex plan successfully implemented	C) Foreign/local/institutional investors subscribed capital	C) The land is acquired / procured transparently
		B) Non-core assets spun-off	**Evidence of successful replication of these financing methods in a relevant sector/country**	D) Arm's length transactions' practice adopted / established
		C) Labour restructuring	A) More Equity Fund financing in real estate	E) Public disclosure of key financials/Shareholder structure
		D) Increased productivity / utilization		F) Implementation of Management Informational Systems
		E) EE performance improved		G) Cash payments practice terminated
		F) Improvement in value		H) International standard energy efficiency certification (e.g. BREEAM /

	added of products from capital expenditures G) Emission monitoring system implemented **Legal restructuring** A) Corporation / Holding established… **Evidence of sector-wide replication of restructuring**	LEAD) process completed I) Energy performance better than national reference energy baseline achieved **Corporate governance improvements:** A) Appointment of independent board member(s) B) Compliance with / Adoption and implementation of best corporate governance practice C) Compliance with / Adoption and implementation of best practice management of real estate D) The Fund to adopt integrity risk procedures

Property and tourism is a sector in which EBRD investments should be limited, especially in more advanced transition countries, due to their lack of clear positive social impacts and additionality. Property and tourism investments are also among those which would most likely be anyway made by the private sector, notwithstanding the current crisis - which must not be allowed to become an excuse to finance everything. Therefore we recommend that the indicators here should be more clearly oriented towards real environmental and social benefits. The *Skills transfer* and *Setting standards…* columns make a good start here.

Here we propose to:

- Discontinue the categories *Private ownership* and *Demonstration of new products.* This comment may be surprising considering that the *Demonstration of new products* column partly relates to environmental improvements, however we consider that such criteria may end up condoning EBRD involvement in any type of property projects, no matter how little real development impact they have.
- Under *Frameworks for market,* add '*Local spatial planning processes carried out with meaningful public participation*', and '*Strategic Environmental Assessment legislation adopted and implemented*'.
- Under *Demonstration of successful restructuring,* insert an indicator on the *Existence of effective social programmes* to ensure that people losing their jobs due to enterprise restructuring have access to re-training schemes and social support. Plus delete *labour restructuring* as it is not a good in itself but is one element contributing to *increased productivity*, which is already represented in the row below.
- Under *Demonstration of new financing methods*, the evidence on whether Equity Funds bring overall positive social benefits is mixed. We therefore propose not to include this indicator as an inherent good.
- Under *Setting standards…* include indicator on *Equal pay for equal work irrespective of gender*.
- Add an *Environmental and social outcomes* column including the following indicators:

Environmental and social outcomes
Energy efficiency performance significantly improved *(can be moved from Restructuring column and Setting standards… "Energy performance better than national reference energy baseline achieved"* is not specific or ambitious enough*.)*
Use of renewable energy for heat and/or power
(Significant increase in) waste recycled or re-used

Use of recycled and/or renewable materials in construction, such as cellulose fibre for insulation
Building designed to be self-cooling, not requiring air conditioning (depending on climate)
The project does not result in an increase in the use of private road transport – the site is easily accessible by public transport
Greywater sanitation system installed/Decreased water usage
Number of direct jobs created/number of people re-employed after layoff/retraining scheme
Increase in gender equality/minorities employed
Increase in gender equality/minorities represented at senior management level
All employees earning a living wage

Agribusiness

Competition	***Market Expansion***	***Private Ownership***	***Frameworks for Market***
Expansion of a non-dominant player in a concentrated market (up to three players), including through consolidation.	**Backward linkages:**	**Full or partial privatization (incl. through IPO/SPO)**	**Adoption/implementation/improvements of legislation/regulations/institutions relevant to sector and associated with the project:**
Indirect measures of greater competition:	A) No. or share of local suppliers outside of the project's entity increased		A)Warehouse receipt legislation adopted/implemented
A) Decreased prices/tariffs/rentals sector-wide	B) Improved contract terms with suppliers (e.g. increased no. of long term contracts,….)		A.1) Commodity based lending techniques with commercial lenders adopted
B) Increased variety of products / services available sector-wide	C) Training and support to suppliers		A.2)Issuing receipts by warehouses achieved
C) Increased quality of services / higher-added value products and services sector-wide	D) No. of suppliers receiving pre-financing assistance increased		A.3) No. of licensed warehouses increased
	E) Increased productivity / production of suppliers		B) Crop Receipt legislation adopted/implemented
	F) Quality of supplied goods outside of the project's entity increased		B) Energy Efficiency legislation adopted/implemented
	G) Increased regional diversity of suppliers		
	Forward linkages:		
	A) Distribution network expanded		
	B) Productivity/efficiency /quality of clients increased		
	C) Increased training/support for customers/distributors (incl. financial)…		

Skills Transfer	***Demonstration of New Products***	***Demonstration of Successful Restructuring***	***Demonstration of New Financing Methods***	***Setting Standards for Corporate Governance and Business Conduct***
Evidence of management and/or operational skill transfer to local staff:	**New higher value-added products / processes/technologies introduced successfully**	**Commercial restructuring/success of the project:**	**Successful introduction of new financing structures/approaches for a given sector:**	**Business conduct/standards improved (transparency / disclosure):**
A) Completion of training programmes for local staff and / or twinning programmes	A) New innovative packaging solutions	A) Improved profitability ratios (e.g. EBITDA)…	A) Successful syndication	A) Adoption of / Compliance with pre-defined standard/plan that goes beyond prevailing national standards/practices (Accounting (IFRS/GAAP), Environmental (EAP/ESAP/ISO 14001), Industry quality/safety standards (GAFTA / FOSTA / ISO / HACCP))

B) Evidence of management skill transfer from strategic sponsor to local management staff (No. of trained and type of skills)	B) New branded / private label products	**Operational restructuring / Efficiency improvements:**	B) Carbon financing…	B) Arm's length transactions' practice adopted / established
C) Training programme for local graduates / Intern programme for local students established	C) New higher-added value products	A) Capex plan successfully implemented	**Evidence of successful replication of these financing methods in a relevant sector/country**	C) Public disclosure of key financials/shareholder structure
	D) Modern retail techniques **Evidence of sector-wide replication of new products and processes introduced by the project**	B) Labour restructuring C) Increased productivity / utilization		D) EE improvements **Corporate governance improvements:**
		D) EE performance improved		A) Compliance with / Adoption and implementation of best corporate governance practice
		E) Development of / implementation of business development plan/programme		B) Supervisory structure introduced / strengthened
		F) Implementation of MIS systems **Legal restructuring** A) Corporation / Holding established…		C) Qualified management appointed D) Establish / Maintain Audit Committee of the Board E) Establish / Maintain Remuneration Committee of the Board F) Minority shareholders protection policy adopted G) Independent director appointed

Agribusiness is in our opinion one of the sectors where it is least clear what the outcome of transition should be. This is because farming in most industrial countries is environmentally unsustainable, lacking in diversity, and heavily dependent on subsidies. Additionally, during the past few decades an increasing emphasis has been put on food security through trade in agricultural products, with foodstuffs being transported for thousands of kilometres to be cleaned, processed, packed and finally sold, however this model is contributing significantly to greenhouse gas emissions from the transport sector and needs to be changed. Additionally, while this model has provided seemingly cheap food for people in developed countries – because the external costs are not included - in the coming decades it is expected that oil prices will rise as a result of the peak of production of conventional oil [5], which will raise the prices of transportation and make it less desirable to continue transporting such large quantities of food over such large distances. Therefore food production and distribution will need to be based on different principles – localising production to the extent feasible and increasing agricultural diversity in order for crops to be less vulnerable to volatile weather patterns caused by climate change.

Therefore we here propose to:

- Discontinue the categories *Private ownership* and *Demonstration of new products.* In particular the criteria under *Demonstration of new products* such as *New innovative packaging solutions* and *Modern retail techniques* are not sufficient to justify financing by a public development bank. If these are desirable – which is debatable given the large amount of food and packaging waste resulting from modern retail, as well as the lack of agricultural diversity caused by the need to use easily transportable fruit and vegetable varieties - they will anyway be introduced by the private

[5] Even the International Energy Agency, which until 2010 did not even mention peak oil officially, suddenly stated last year that conventional oil production has already peaked – in 2006 (IEA/OECD: World Energy Outlook 2010, p.6 http://www.worldenergyoutlook.org/docs/weo2010/WEO2010_ES_English.pdf).

sector in due time.

- Under Frameworks for markets, add "*Strict animal welfare legislation in place*"; *"Organic certification scheme functioning" and "Existence of a publicly consulted national agriculture strategy incorporating social and environmental sustainability"* .
- Under *Demonstration of successful restructuring,* insert an indicator on the *Existence of effective social programmes* to ensure that people losing their jobs due to enterprise restructuring have access to re-training schemes and social support. Plus delete *labour restructuring* as it is not a good in itself but is one element contributing to *increased productivity*, which is already represented in the row below.
- Under *Demonstration of new financing methods*: *Carbon financing* is only useful when it results in concrete, absolute reductions in greenhouse gas emissions. Therefore we propose an adjustment to the indicator specifying: *Carbon financing resulting in clear absolute GHG emissions reduction*.
- Under *Setting standards....* , add "*crop rotation practiced*" and *"equal pay for equal work irrespective of gender."*
- Add an *Environmental and social outcomes* column including the following indicators:

Environmental and social outcomes
Energy efficiency performance significantly improved *(can be moved from Restructuring column and Setting standards...)*
Use of renewable energy for heat and/or power
(Significant increase in) waste recycled or re-used
Maintained or increased average soil humus content (for arable farming projects)
Compliance with EU Nitrates Directive
Diversity of crop varieties (more variety means more resistance to disease and climatic factors)
Farmland Bird Index (or other biodiversity indicator).
Number of direct jobs created/number of people re-employed after layoff/retraining scheme
Increase in gender equality/minorities employed
Increase in gender equality/minorities represented at senior management level
All employees earning a living wage

Telecoms

Competition	***Market Expansion***	***Private Ownership***	***Frameworks for Market***
Expansion of a non-dominant player in a concentrated market (up to three players), including through consolidation.	**Forward linkages**	**Full or partial privatization (incl. through IPO/SPO)**	**Adoption/implementation/improvements of legislation/regulations/institutions relevant to sector and associated with the project:**
Indirect measures of greater competition:	A) Increased penetration rates:	**Increase in market share of services of privately owned companies relative to the state**	A) Improved tariff methodology to the best practices
A) Decreased prices/tariffs/rentals sector-wide B) Increased variety of products / services available sector-wide C) Increased quality of services / higher-added value products and services sector-wide	*A.1) Mobile phones* *A.2) Broadband* *A.3) Cable TV*		B)Third party access to the network allowed

D) Decreased ARPU	B) Local content increased significantly C) Geographical/regional coverage increased (e.g. new regional offices established)

Skills Transfer	***Demonstration of New Products***	***Demonstration of Successful Restructuring***	***Demonstration of New Financing Methods***	***Setting Standards for Corporate Governance and Business Conduct***
Evidence of management and/or operational skill transfer to local staff:	**New products / technologies/services introduced successfully**	**Commercial restructuring:**	**Successful introduction of new financing structures/approaches for a given sector:**	**Business conduct/standards improved (transparency / disclosure):**
A) Completion of training programmes for local staff and / or twinning programmes e.g. related to a new technology	**Evidence of sector-wide replication of new products and processes introduced by the project**	A) Improved profitability ratios (e.g. EBITDA)…	**Evidence of successful replication of these financing methods in a relevant sector/country**	A) Adoption of / Compliance with pre-defined standard/plan that goes beyond prevailing national standards/practices (Accounting (IFRS/GAAP), Environmental (EAP/ESAP/ISO 14001), Industry quality/safety standards (IAITI), Health and safety (EU standards))
B) Evidence of management skill transfer from strategic sponsor to local management staff (No. of trainined and type of skills)		**Operational restructuring / Efficiency improvements:**		B) Arm's length transactions' practice adopted / established
		A) Capex plan successfully implemented		C) Public disclosure of key financials/shareholder structure
		B) Non-core assets spun-off		D) Permits / Titles transparently obtained
		C) Labour restructuring measured by output per employee		E) Audited financials
		D) Increased productivity / utilization		**Corporate governance improvements:**
		E) EE performance improved		A) Compliance with / Adoption and implementation of best corporate governance practice
		F) Improvement in value added of products from capital expenditures		B) Supervisory structure introduced / strengthen
		G) Emission monitoring system implemented		C) Qualified management appointed
		E) Modernisation of the existent network / acquired networks		D) Establish / Maintain Audit Committee of the Board
		Legal restructuring		E) Establish / Maintain Remuneration Committee of the Board
		A) Corporation / Holding established…		F) Minority shareholders protection policy adopted
		Evidence of sector-wide replication of restructuring		G) Independent director appointed

Here we propose:

- Under *Demonstration of successful restructuring,* insert an indicator on the *Existence of effective social programmes* to ensure that people losing their jobs due to enterprise restructuring have access to re-training schemes and social support. Plus delete *labour restructuring* as it is not a good in itself but is one element contributing to *increased productivity*, which is already represented in the row below.
- Under *Setting standards…* include an indicator on *equal pay for equal work irrespective of gender*.
- Add a *Social and environmental outcomes* column including the following:

Environmental and social outcomes
Energy efficiency performance significantly improved *(can be moved from Restructuring column)*
Use of renewable energy for heat and/or power
(Significant increase in) waste recycled or re-used
Decreased water usage
Significant use of recycled and/or renewable materials for construction or network
Number of direct jobs created/number of people re-employed after layoff/retraining scheme
Increase in gender equality/minorities employed
Increase in gender equality/minorities represented at senior management level
All employees earning a living wage
Increased availability of telecoms services (particularly broadband internet) outside of cities

Power and energy

Competition	***Market Expansion***	***Private Ownership***	***Frameworks for Markets***
Entry of a new player in a concentrated market	**Expansion in new markets**	**Full or partial privatization**	**Laws/legislation improvements that support markets**
A) Entry of an independent supplier, generator or energy service provider	A) Increased international power trade	A) Written expression of government commitment to privatise	A) Establishment of / Strengthening of independent regulator
Expansion of a non-dominant market player (market share)	**Forward linkages**	**Increased market share of privately owned companies in a market dominated by the state:**	B) Effective energy legislation adopted
A) Increased volume of power traded on liberalised and competitive market	A) Electricity transmission or distribution capacity increased due to new investment	A) Support to independent private companies	C) Transparent open tender process established for awarding of licences or supply contracts
Indirect measures of greater competition:	B) Share of electricity sold in competitive market vs. directed contracts		D) Unbundling of different lines of business (ownership / legal / management / accounting)
A) Decreased supply cost due to competitive pressure	**Backward linkages**		E) Implementation of a market-based and other efficient support schemes for RE / energy efficiency / co-generation
B) Improved quality of good / services	**Fully liberalised and competitive retail electricity / gas market achieved**		F) Implementation of affordability measures through non-discriminatory means and consistent with market systems
			Regulatory improvements for markets
			A) Granting a third party access
			B) Elimination of subsidies or cross-subsidies
			C) Implementation of non-discriminatory and transparent tariff methodology
			D) Full / Partial cost recovery tariffs achieved
			E) Elimination of payment arrears
			F) Prices to converge to international levels

Skills Transfer	***Demonstration of New Products***	***Demonstration of Successful Restructuring***	***Demonstration of New Financing Methods***	***Setting Standards for Corporate Governance and Business Conduct***

Evidence of management and/or operational skill transfer to local staff:	Successful introduction of a product that is new to a relevant sector/country, going beyond standard market practice	Commercial restructuring	Introduction of new financing instrument:	Best business practices:
A) Internationally certified systems implemented	A) First new generation technology in the country	A) Improved profitability ratios (e.g. EBITDA)…	A) bond/IPO;	A) Adoption of/ Compliance with pre-defined best practice standards (e.g. Environment (ISO 14001), Health and safety (ISO 18001/50001)...)
B) Energy management system established due to training…	B) First new network technology in the country	**Operational restructuring / Efficiency improvements:**	B) syndications	B) Increased Transparency/disclosure
C) Number of staff trained	**Evidence of successful replication of the new product on market terms**	A) Capex plan successfully implemented	C) first corporate loans for state companies…	*B.1) Disclosure of service performance against targets*
		B) Unbundling (legal / management / accounting / ownership)	**Introduction of new financing structure:**	*B.2) Disclosure of key financials*
		C) Labour restructuring	A) toll collection	*B.3) Disclosure of energy emissions*
		D) Increased productivity / utilization	B) carbon credits	E) Procurement / Construction completed on time and within the budget
		E) Energy efficiency or Environmental improvements	C) first PPP…	F) Procurement conducted transparently and with no major complaints from other parties
		F) Reduction in losses	**Evidence of successful replication of new financing instruments/structures in a relevant sector/country**	G) Improved public consultation procedures and reporting of outcomes
		Legal restructuring		**Corporate governance improvements:**
		A) Transformation into a joint-stock company / corporation; Corporation/Holding established…		A) Compliance with / Adoption of / Implementation of best corporate governance practice such as:
				A.1) Appointment of independent board members or representatives from the private sector
				A.2) Independent technical and financial audits
				A.3 Establish / Maintain Remuneration Committee of the Board
				B) Adoption and implementation of best practice corporate governance code

Power and energy is another sector where it cannot be said that the developed market economies have 'got it right' and that the established ways of doing things can be smoothly transferred to the transition countries. In particular there is a need for the transition countries to rapidly leap-frog from a current situation of dirty energy production and high energy intensity to an energy efficient, renewables based energy system in a shorter timespan than most of the developed economies have been doing so far. We therefore propose an increased focus on environmental and social outcomes. The *Frameworks for markets, Skills transfer and* indicators make a good start here.

Specifically we propose to:

- Discontinue the categories *Private ownership* and *Demonstration of new products*. As some degree of private ownership may help to avoid a situation in which government companies have an abusive position on the market (like CEZ in the Czech Republic or PGNIG on the gas market in Poland), we propose to move *Increased market share of privately owned companies in a market dominated by the state: Support to independent* *private companies* to the column on *Competition*.

- *Competition*: *Entrance of a new player*: The entrance as such may not be beneficial. For example the entry of a large new energy company that will produce energy from coal in Poland will not improve anything. It is only positive when it leads to the diversification of the energy mix away from fossil fuels and nuclear and towards sustainable renewables. It also depends on the size of the new independent competitor. An entry of a powerful European player may lead to a consolidation of the market and limit competition overall instead of increasing it. We propose to change this to: *Entrance of a new player introducing renewable energy. Expansion of a non-dominant market player (market share)*: When a market is an oligopoly – for example the energy market in Poland can be described this way - an increase in the market share of a second biggest player is actually counter-competition as it creates even greater obstacles for smaller players to compete on that market. We propose to change this to: *Expansion of a* ***minor*** *market player*".
- *Market expansion*: *Increased international power trade*: An increase in an international power trade is not valuable in itself if the trade is limited to one commodity (i.e. coal). It can actually prolong the dependence on a given energy source despite decreasing domestic reserves. In the case of Ukraine, for example, a project exporting electricity could score highly even if the electricity was coming from old coal or nuclear power plants. We propose to discontinue use of this indicator due to its potential to award 'points' for projects that have negative environmental and social impacts.
- Under *Frameworks for markets*, add *Existence of a publicly consulted national energy strategy incorporating social and environmental sustainability*
- Under *Demonstration of successful restructuring,* insert an indicator on the *Existence of effective social programmes* to ensure that people losing their jobs due to enterprise restructuring have access to re-training schemes and social support. Plus delete *labour restructuring* as it is not a good in itself but is one element contributing to *increased productivity*, which is already represented in the row below.
- Also regarding *Restructuring*, we recommend a re-examination of why an indicator exists on *Transformation into a joint-stock company/corporation; Corporation/Holding established.* Does this have any real development benefits?
- Under *Demonstration of new financing methods*: Toll collection does not seem to fit here. Perhaps it should be removed. We propose to change "*First PPP*" to "*well-constructed concession providing good value for money for users and public budgets*". This is because, first, it is confusing to use the term PPP in the energy sector, as the arrangements involved tend to differ from PPPs where either users pay directly for a service such as a toll road or a public authority pays directly for the services provided. In this case, users do pay, but through a distribution company. Second, it is important to specify that it is not enough to introduce concessions, but it is crucial that they offer good value for money for users and public budgets. Experience within the region and beyond has shown that governments are often not skilled at securing a good deal for the public budget in such projects. *Carbon credits* are only useful when they result in concrete, absolute reductions in greenhouse gas emissions. Therefore we propose an adjustment to the indicator specifying: *Carbon credits resulting in clear absolute GHG emissions reduction.*
- Under *Setting standards...* include an indicator on equal pay for equal irrespective of gender.
- Add a column on environmental and social outcomes, including the following:

Environmental and social outcomes
Significant reduction in energy intensity *(can be moved from Restructuring column)*
Significant increase in the use of renewable energy for production

Significant reduction in *overall* CO_2 emissions
Significant decrease in air/water/soil pollution
Significant reduction in material intensity of production
Significant reduction in waste produced
Decreased water usage
Compliance with EU environmental standards
Number of direct jobs created/number of people re-employed after layoff/retraining scheme
Increase in gender equality/minorities employed
Increase in gender equality/minorities represented at senior management level
All employees earning a living wage

Natural resources

Competition	***Market Expansion***	***Private Ownership***	***Frameworks for Markets***
Entry of a new player in a concentrated market	**Expansion in new markets**	**Full or partial privatization**	**Laws/legislation improvements that support markets**
A) New extracting licence awarded	A) Integration of the economic activity at the regional / international level:	A) Written expression of government commitment to privatise	A) Adoption of EITI principles by a country (transparent licensing regime for extraction of mineral resources, transparent taxation of natural resources, transparent accountability of tariff revenues…):
B) Entry of an independent supplier, generator or energy service provider	*A.1) Opening of new markets to import / export*	**Increased market share of privately owned companies in a market dominated by the state:**	B) Adoption of / Implementation of a suitable energy policy / legislation
Expansion of a non-dominant market player (market share)	*A.2) Cross-border infrastructure investments*	A) Support to independent private companies	C) Establishment of / Strengthening of independent regulator
A) Expansion of distribution network...	*A.3) Enhancing distribution networks*		**Regulatory improvements for markets**
Indirect measures of greater competition:	**Backward linkages**		A) Adoption of / Endorsement of a strategy to corporatisation (Unbundling of monopolist energy company, Commercialisation, Adoption of a privatization strategy)
A) Decreased supply cost due to competitive pressure	A) No. of local suppliers bidding for contracts		B) Allowing an independent supplier to access the distribution network / storage capacity by granting a non-discriminatory third party access
B) Improved quality of good / services due to competitive pressure	B) No. of contracts awarded to local suppliers		C) Elimination of subsidies/cross-subsidies
	C) Improved standards on the side of local suppliers		D) Full/partial cost recovery tariffs achieved
	D) Decreased supply cost and improved quality of suppliers		E) Prices to reflect/mark international prices
	Forward linkages		
	A) Gas transmission or distribution capacity increased due to new investment		

Skills Transfer	***Demonstration of New Products***	***Demonstration of Successful Restructuring***	***Demonstration of New Financing Methods***	***Setting Standards for Corporate Governance and Business Conduct***

Evidence of management and/or operational skill transfer to local staff:	**Introduction of technology/equipment that is new to a relevant sector/country, going beyond standard market practice**	**Commercial restructuring:**	**Introduction of new financing instrument:**	**Best business practices:**
A) number of local managers hired;	A) New drilling technologies	A) Improved profitability ratios…	A) bond/IPO;	A) Adoption of/ Compliance with pre-defined best practice standards (Environment (ISO 14001), Health and safety (ISO 18001/50001)...)
B) Sector management system established due to training…	B) Environmental remediation technology/equipment	**Operational restructuring / Efficiency improvements:**	B) syndications	B) Increased Transparency/disclosure
C) Number of staff trained	C) Gas flaring reduction technology/equipment	A) Outsourcing of / Tendering out of non-core activities	C) first corporate loans for state companies…	*B.1) Disclosure of service performance against targets*
	D) Production of higher quality fuel in accordance with EU directives	B) Decreased gas flaring rate	**Introduction of new financing structure:**	*B.2) Disclosure of key financials*
	Evidence of successful replication of the new product on market terms	C) Reduced energy usage	A) carbon credits…	*B.3) Disclosure of energy/emissions*
		D) Reduced pipeline leaks / oil leakages	**Evidence of successful replication of new financing instruments/structures in a relevant sector/country**	*B.4) Compliance with 'Publish what you pay' principle*
		E) Decreased water usage		*B.5) Compliance with EITI*
		F) Reduction of carbon emissions		E) Procurement / Construction completed on time and within the budget
		G) Development of / Implementation of restructuring or business development plan / programme		F) Procurement conducted transparently, according to EBRD standards and with no major complaints from other parties
		H) Development of environmental monitoring system / programme / plan		G) Improved public consultation and reporting of outcomes
		Legal restructuring		**Corporate governance improvements:**
		A) Transformation into a joint-stock company / corporation		A) Compliance with / Adoption of / Implementation of best corporate governance practice such as:
		B) Unbundling of different lines of business		*A.1) Appointment of independent board members or representatives from the private sector*
				A.2) Independent technical and financial audits
				A.3 Establish / Maintain Remuneration, Audit or other Committees of the Board
				A.4) Adoption of / Compliance with a Code of Ethics
				A.5) Adoption of / Compliance with a Code of Conduct
				B) Adoption and implementation of best practice corporate governance code
				B.1) Minority shareholders protection policy adopted
				B.2) Dividend Policy agreed / approved by shareholders

Natural resources ought to be a blessing for a country but as they all too often end up being more of a curse, it is crucial to pay attention to social and environmental factors with these indicators. While Bankwatch believes that the EBRD and other multilateral development banks need to phase out lending for fossil fuel projects, as long as this has not happened we include here some relevant environmental and social indicators. Specifically we propose to:

- Discontinue the categories *Private ownership* and *Demonstration of new products*. Expansion of the private sector is already sufficiently covered by the *Competition* column, while the *Demonstration of new products* is ineffective because it is the actual development outcomes not just the use of *new products* that should be measured. The only part here that is more of an outcome is on higher quality fuel, and this can be moved to the proposed column below.

- Under *Frameworks for markets*, add indicators on: *Presence of an effective monitoring system for mining waste facilities – in use and abandoned* - and *Health monitoring of population exposed to the negative impact of extractive industries facilities* .
- Regarding *Restructuring*, we recommend a re-examination of why an indicator exists on *Transformation into a joint-stock company/corporation; Corporation/Holding established.* Does this have any real development benefits?
- Under *Demonstrating new financing methods*: *Carbon credits* are only useful when they result in concrete, absolute reductions in greenhouse gas emissions. Therefore we propose an adjustment to the indicator specifying: *Carbon credits resulting in clear absolute GHG emissions reduction*.
- Under *Setting standards...* include indicators on:
  Equal pay for equal work irrespective of gender
  Compliance with EU Directive 2006/21/EC on the management of mining wastes
  Full compliance with discharge permits limitations (as opposed to choosing to pay fines because it is cheaper than fixing the problem).
  Adequate insurance cover in case of accidents or emergencies
  Sufficient and secure funds ring-fenced for post-closure rehabilitation
- Add a column on *Social and environmental outcomes*, including the following:

Environmental and social outcomes
Significant reduction in energy use *(can be moved from Restructuring column)*
Significant decrease in gas flaring rate *(can be moved from Restructuring column)*
Significant reduction in energy intensity
Production of higher quality fuel in accordance with EU Directives (can be moved from *Demonstration of new products*)
Significant increase in the use of renewable energy for production
Significant reduction in *overall* CO2 emissions (*can be moved from Restructuring column)*
Significant decrease in air/water/soil pollution
Decreased water usage *(can be moved from Restructuring column)*
Reduced pipeline leaks/oil leakages *(can be moved from Restructuring column)*
Significant reduction in waste produced
Compliance with EU environmental standards
Adequate rehabilitation of old mining operations and environmental legacy problems resolved on all areas within the mining concession zone
Number of direct jobs created/number of people re-employed after layoff/retraining scheme
Increase in gender equality/minorities employed
Increase in gender equality/minorities represented at senior management level

All employees earning a living wage

Transport

Competition	***Market Expansion***	***Private Ownership***	***Frameworks for Markets***
Entry of a new player/number of operators increased in a competitive sector such as:	**Improved / Increased backward linkages - rarely applicable for this sector**	**Full of partial privatisation (including through IPO)**	**Regulatory improvements for markets:**
A) Freight/rail operations		**Private sector participation**	A) Tariff Reform (Cost-reflective tariffs): Maintenance and renewal covered (Opex), Full cost-recovery achieved (Opex + Capex))
B) Shipping		A) Outsourcing or tendering out of operations / maintenance to private sector (government level)	B) Introduction / Expansion of the 'user pays' principle (Maintenance; Maintenance, rehabilitation and development)
C) Airlines		B) PPP tender successfully awarded / launched	C) Development / Implementation of clear tariff methodology
D) Ports (terminal operations)…		C) Concession successfully awarded	**Legislative/institutional/contractual improvements for markets:**
Increased market share of a non-dominant player / Less concentrated market shares in favour of a non-dominant player		**Increased number/share of private operators in a state-dominated market, in competitive segments**	A) Implementation / Adoption / Preparation of a legislation / policy / strategy for sector restructuring
Indirect measures of greater competition:			B) Non-discriminatory / Equal access legislation adopted / implemented
A) Decreased pricing/tariffs			C) Establishment of / Strengthening of autonomous regulator
			D) Performance-based service contracts introduced
			E) Sector financing reform approved
			F) Development and / or implementation of a PPP strategy and / or concession legislation

Skills Transfer	***Demonstration of New Products***	***Demonstration of Successful Restructuring***	***Demonstration of New Financing Methods***	***Setting Standards for Corporate Governance and Business Conduct***
Completion of training programmes for local staff and / or twinning programmes	**Introduction of new equipment or technology in a relevant sector**	**Commercial restructuring**	**Introduction of a new financing instrument (first of a kind financial instrument):**	**Business practices standards improvement:**
Evidence of management skill transfers	A) Best Available Technology (BAT)	A) Improved revenue performance (e.g. collection ratio)	A) Revenue Bond	A) Adoption of/ Compliance with pre-defined best practice standards (Environment (ISO 14001), Health and safety (ISO 18001/50001)...)
Evidence of operational skill transfers Such as business systems	**Introduction of a new business model**	B) Improved profitability ratios	B) Corporate Bond	B) Increased Transparency/disclosure (Disclosure of service performance against targets, of key financials, of energy/emissions)
	A) Low-cost airline	**Operational restructuring**	C) Syndications	*B.1) Disclosure of service performance against targets*
	B) Integrated logistics…	A) Labour restructuring	D) IPO	*B.2) Disclosure of key financials*
	Evidence of successful replication of new products without EBRD's involvement	B) Increased productivity	**Introduction of new financing structure:**	*B.3) Disclosure of energy/emissions)*
		C) Reduction of operating / energy costs	A) Establishment of Toll collection	C) Procurement / Construction completed transparently, on time, and within the budget
		Legal restructuring	B) Project financing through carbon transactions	**Corporate governance standards improvement:**
		Transformation into a joint-stock company / corporation / public enterprise	C) First PPP in the country/sector	A) Compliance with / Adoption of / Implementation of best corporate governance practice such as:
		Evidence of successful replication of legal restructuring in a relevant	**Evidence of successful replication of new financing instruments/structures in a**	*A.1) Appointment of independent board members or representatives from the private sector*

	sector/country	**relevant sector/country**	*A.2) Independent technical and financial audits* *A.3) Establish / Maintain Audit Committee of the Board* *A.4) Establish / Maintain Remuneration Committee of the Board* B) Adoption and implementation of best practice corporate governance code

In the European Union transport constitutes around a quarter of greenhouse gas emissions[6] and is proving to be the most difficult sector in which to make reductions. While the transition countries traditionally have a much lower share of greenhouse gas emissions from transport, keeping the situation this way while providing a high quality transport system is a major challenge, and so far most decision-makers have concentrated on motorway construction rather than paying sufficient attention to providing high quality public transport services or making cities more pleasant to walk and cycle in. This has made cities congested and polluted and contributed to a vicious cycle of decline in public transport due to lower income. The economic cost of exaggerated emphasis on motorway development has also burdened public budgets and many projects have provided poor value for money for the public purse, either due to corruption or simply poor planning, thus diverting resources away from more sustainable modes of transport and from social spending.

The introduction of private operators into the transport sector has had mixed results. For sub-sectors where real competition is possible, such as intercity bus services or airlines, it has often worked well. However for passenger rail or core urban public transport networks the results have been mixed, even in countries with greater public sector regulatory capacity such as the UK.

PPPs have been heavily promoted in the transition region, but the results have not lived up to expectations. Road PPPs in CEE have performed poorly – with high costs but not succeeding in transferring a significant degree of risk to the private sector during the operation stage. The early Hungarian PPP motorways did so, but then failed to make the expected income. Since then the PPP arrangements have either been on the basis of an availability fee, which means very little risk for the concessionaire during the operational stage – just maintenance and some snow clearance - or state guarantee for toll incomes, which means no risk at all for the concessionaire. We believe that these are more than teething problems and that there are very few routes in our region where road PPPs would function well. The issue of off-balance sheet debts and future budget commitments caused by multiple PPPs has also come to the fore during the financial crisis. In countries including Hungary, Portugal and the UK PPPs have led to affordability problems and attracted widespread criticism, leading to Hungary and Portugal suspending their PPP programmes and the UK slashing the number of projects under its Building Schools for the Future programme.

In order to achieve an environmentally and socially sustainable transport system, massive changes are needed, and it is not sufficient to hope that technological advances will be sufficient. The European Environment Agency has found that the greatest potential for reducing Greenhouse Gases from transport arises from a combined package, in which technological improvements that reduce fuel consumption are used alongside measures to shift journeys to lower emission modes and to avoid the need to travel altogether.[7] While many of the drivers for avoiding transportation come from outside the

[6] AEA: EU Transport GHG: Routes to 2050 http://www.eutransportghg2050.eu/cms/the-contribution-of-transport-to-ghg-emissions/

[7] European Environment Agency: Towards a resource-efficient transport system — TERM 2009 EEA Report No 2/2010 http://www.eea.europa.eu/publications/towards-a-

transport sector (eg. from the property development sector or food policy), EBRD transport projects need to prioritise shifting journeys to lower emission modes and in encouraging technological improvements in these modes.

Therefore we propose to:

- Discontinue the categories *Private ownership* and *Demonstration of new products*, as private ownership does not necessarily lead to better results in the transport sector. **In particular the PPP indicator should be removed,** partly because of the poor results from PPPs so far but also because undertaking PPPs is a policy choice that is a possibility, but not inherent, in a market economy. Many market economies have been functioning for years with no PPPs. *New products* are likewise relevant only if they lead to concrete outcomes such as an increased proportion of journeys being undertaken by public transport. **In particular the indicator on *Low-cost airlines* needs to be deleted** if the EBRD is to be seen as a credible force in promoting sustainable transport and the inclusion of external costs into user prices.
- Under *Frameworks for markets:*
  a) Reformulate the tariff reform indicators to require that rail and road pricing is set at a level which makes it attractive to use rail relative to road transport. Principles such as full cost recovery may not encourage rail transport if road transport does not pay its external costs. Track access charges should be set at levels competitive with the charges for alternative road infrastructure usage. If this means more subsidies and less cost-recovery, then so be it.
  b) change *Development and/or implementation of a PPP strategy and/or concession legislation* to *Development and/or implementation of concession legislation* and
  c) add an indicator on the *Existence of a publicly consulted national transport strategy oriented towards social and environmental sustainability.*
- Under *Demonstration of successful restructuring,*
  a) insert an indicator on the existence of social programmes to ensure that people losing their jobs due to enterprise restructuring have access to re-training schemes and social support
  b) delete *labour restructuring* as it is not a good in itself but is one element contributing to *increased productivity* and *Reduction of operating/energy costs* which are already represented in the rows below
  c) we recommend a re-examination of why an indicator exists on *Transformation into a joint-stock company/corporation; Corporation/Holding established*. Does this have any real development benefits?
- Under *Demonstration of new financing methods:*
  a) Under *Introduction of Toll collection*, make it clear that road tolls need to be set at a level which makes rail competitive. Paradoxically the cost-recovery for rail is in many transition countries much more advanced than on roads which distorts the competition between the two transport modes and increases the negative environmental impact (e.g. GHG emissions). From this point of view tariffs for use of roads which cover internal and external costs are crucial.
  b) *Carbon transactions* are only useful when they result in concrete, absolute reductions in greenhouse gas emissions. Therefore we propose an adjustment to the indicator specifying: *Carbon transactions resulting in clear absolute GHG emissions reduction.*
  c) delete the *First PPP* indicator, for the reasons mentioned above under *Private ownership*
- Under *Setting standards...* include an indicator on *Equal pay for equal work irrespective of gender.*

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resource-efficient-transport-system

- Add a column on *Environmental and social outcomes* including the following:

Environmental and social outcomes
Significant reduction in energy use
(For public transport projects) significant increase in modal share of public transport
Significant reduction in energy intensity
Use of renewable energy for transportation
(For public transport projects) significant increase in passenger-kilometres of public transport or rail freight kilometres
(For rail projects) Decrease in road freight kilometres on the same corridor
Decrease of noise in areas near airports and motorways
Significant reduction in *overall* CO_2 emissions (*can be moved from Restructuring column)*
Significant decrease in air pollution
Number of direct jobs created/number of people re-employed after layoff/retraining scheme
Increase in gender equality/minorities employed
Increase in gender equality/minorities represented at senior management level
All employees earning a living wage

Municipal and environmental infrastructure

Competition	***Market Expansion***	***Private Ownership***	***Frameworks for Markets***
Entry of a new player/number of operators increased in a competitive sector such as: A) Urban transport providers **Increased market share of a non-dominant player / Less concentrated market shares in favour of a non-dominant player**	**Improved / Increased backward linkages - rarely applicable for this sector**	**Full or partial privatisation (including through IPO)** A) Municipal transport providers… A) Municipal water sector… **Private sector participation** A) Outsourcing or tendering out of operations / maintenance to private sector (government level) B) PPP tender successfully awarded / launched **Increased number of private operators in a state-dominated market, in competitive segments** A) Municipal transport providers…	**Regulatory improvements for markets:** A) Elimination of cross subsidies B) Full / Partial cost-recovery tariffs achieved (fare-box ratio) C) Development and implementation of clear tariff methodology (RAB methodology…) D) Reform of subsidies: Move from operating subsidies targeted income support to vulnerable consumers E) Introduction of consumption based billing (metering) **Legislative/institutional/ contractual improvements for markets:** A) Development and / or implementation of a PPP strategy and / or concession legislation B) Signing / Implementation of incentive-based Public Service Contract C) Establishment of an independent regulator

Skills Transfer	***Demonstration of New Products***	***Demonstration of Successful Restructuring***	***Demonstration of New Financing Methods***	***Setting Standards for Corporate Governance and Business Conduct***
Completion of training programmes for local staff and / or twinning programmes	**Introduction of new equipment or technology in a relevant sector**	**Commercial restructuring**	**Introduction of new financing instrument:**	**Business practices standards improvement:**
Evidence of management skill transfers	A) CNG	A) Improved revenue performance (e.g. collection ratio)	A) bond/IPO;	A) Adoption of/ Compliance with pre-defined best practice standards (Environment (ISO 14001), Health and safety (ISO 18001/50001)...)
Evidence of operational skill transfers Such as business systems	**Introduction of a new business model**	B) Improved profitability ratios	B) syndications	B) Increased Transparency/disclosure
	Evidence of successful replication of new products without EBRD's involvement	**Operational restructuring**	C) first corporate loans for state companies…	*B.1) Disclosure of service performance against targets*
		A) Labour restructuring	**Introduction of new financing structure:**	*B.2) Disclosure of key financials*
		B) Increased productivity	A) toll collection	*B.3) Disclosure of energy/emissions)*
		C) Reduction of operating / O&M/energy costs	B) carbon credits	C) Procurement / Construction completed transparantly, on time, and within the budget
		Legal restructuring	C) first PPP…	D) Fulfilment of financial and operational obligations
		Transformation into a joint-stock company / corporation / public enterprise	**Evidence of successful replication of new financing instruments/structures in a relevant sector/country**	E) Improved public consultation procedures and reporting of outcomes
		Evidence of successful replication of legal restructuring in a relevant sector/country		**Corporate governance standards improvement:**
				A) Compliance with / Adoption of / Implementation of best corporate governance practice such as: *A.1) Appointment of independent board members or representatives from the private sector* *A.2) Independent technical and financial audits* B) Adoption and implementation of best practice corporate governance code

MEI is another sector where market rules do not always apply. While waste recycling and urban bus services may sometimes be successfully privatised, in other sectors the involvement of the private sector has been less convincing. Examples include the EBRD-financed Sofia water concession, where more than 10 years after the privatisation water losses are still at 60 percent and the water regarded as undrinkable by most people, [8] and the Zagreb wastewater treatment plant, which has been subject to a highly overpriced PPP whose price has been constantly growing since the EBRD approved a loan for the project in 2001.[9]

Yet MEI is also one of the sectors where the EBRD ought to be in a position to make the biggest and most direct positive difference to people's lives and to the environment, through the provision of affordable, drinkable water; the provision of effective and environmentally sustainable public transport; reducing waste production and increasing recycling; increasing energy efficiency, and increasing the usage of renewable energy sources in district

[8] Novinite.com: Anger in Sofia over Poor Water Quality, Loss, 10 June 2011 http://www.thebulgariannews.com/view_news.php?id=129170

[9] See case study in CEE Bankwatch Network: Never Mind the Balance Sheet – the dangers of public private partnerships in central and eastern Europe, November 2008, http://bankwatch.org/documents/never_mind_the_balance_sheet.pdf

heating. Thus we propose the following changes to the proposed indicators:

- Discontinue the categories *Private ownership* and *Demonstration of new products*, as private ownership does not necessarily lead to better results in the MEI sector, with a few exceptions that are covered by the column on competition. It is more important to get the service and regulation right. In particular the *"PPP tender successfully awarded/ launched"* indicator should be removed, partly for the reasons mentioned under the *Transport* comments but also because many of the problems which have occurred, such as failure to make adequate investments to prevent leakage or improve water quality, come much later than the tender being awarded and the contract signed. Such an indicator therefore says little about whether real people benefit from the project. *New products* are likewise relevant only if they lead to concrete outcomes such as an increased proportion of journeys being undertaken by public transport or on foot, but in this sector they do not seem to play a significant role, with the exception of those leading to environmental improvements that can be listed in an *Environmental and Social Outcomes* column (see below).
- Under *Frameworks for markets:*
  a) change *Development and implementation of clear tariff methodology (RAB methodology…)* to *Development and implementation of clear tariff methodology that ensures the competitiveness of public transport over car usage*
  b) change *Development and/or implementation of a PPP strategy and/or concession legislation* to *Development and/or implementation of concession legislation* and
  c) add: *Existence of a publicly consulted municipal waste/water/energy strategy incorporating social and environmental sustainability.*
- Under *Demonstration of successful restructuring:*
  a) insert an indicator on the existence of social programmes to ensure that people losing their jobs due to enterprise restructuring have access to re-training schemes and social support
  b) delete *labour restructuring* as it is not a good in itself but is one element contributing to *increased productivity*, which is already represented in the row below
  c) we recommend a re-examination of why an indicator exists on *Transformation into a joint-stock company/corporation; Corporation/Holding established*. Does this have any real development benefits?
- Under *Demonstration of new financing methods:*
  a) Delete *Toll collection*, as it is not particularly relevant to urban transport unless relating to eg. a congestion charge.
  b) *Carbon credits* are only useful when they result in concrete, absolute reductions in greenhouse gas emissions. Therefore we propose an adjustment to the indicator specifying: *Carbon transactions resulting in clear absolute GHG emissions reduction.*
  c) delete the *First PPP* indicator, for the reasons mentioned above under *Private ownership*
- Under *Setting standards...* include an indicator on equal pay for equal work for men and women
- Insert an Environmental and social outcomes column, including the following:

Environmental and social outcomes
Significant reduction in water leakage
Increase in the number of inhabitants with safe, drinkable and tasty tap water

Significant reductions in water pollution
Municipal waste production reduced significantly
Municipal waste recycling increased significantly
Significant increase in modal share of public transport
Significant reduction in energy intensity
Reduction in number of people living in energy poverty
Use of renewable energy
Significant increase in passenger-kilometres of public transport or walking/cycling
Significant reduction in *overall* CO_2 emissions
Significant decrease in air pollution
Number of direct jobs created/number of people re-employed after layoff/retraining scheme
Increase in gender equality/minorities employed
Increase in gender equality/minorities represented at senior management level
All employees earning a living wage

Financial institutions

Competition	***Market Expansion***	***Private Ownership***	***Frameworks for Markets***
Increased market share of a non-dominant player in a concentrated market and/or of a private player in a predominantly public market (including through consolidation)	**Expansion of banking in a new or underserved market segment and/or region (MSME/mortgage/retail loans, agri-lending, EE lending, leasing services…); Expansion of the segment targeted by these resources:**	**Full or partial privatization (including through IPO)**	**New or improved market supporting legislation/regulation adopted**
New entry in a market segment with very few active players	A) Share and volume of loans extended in a context of expansion in a given segment/region		A) Sub-debt
Indirect measures of greater competition:	B) Increase in a number / volume of loans in a context of expansion in a given segment/region		B) Deposit insurance schemes
A) Decreased interest rates / Net interest margins	C) New clients reached in a context of expansion in a given segment/region		C) Credit bureaux
B) Increased variety of products / services available	D) No. of new outlets / branches / point of sales opened		D) Policy dialog on regulatory/legislative improvements established
	E) Geographical diversity (in terms of new products)		E) Securitisation / Covered bonds
	F) Maturity of loans extended		F) Transfer of loans / NPLs
	G) Share of loans in local currency increased		
	E) New products / services introduced		

Skills Transfer	***Demonstration of New Products***	***Demonstration of Successful Restructuring***	***Demonstration of New Financing Methods***	***Setting Standards for Corporate Governance and Business Conduct***
Improved (underwriting/credit, management, productivity, operational) skills	**New products introduced in the market**	**Financial restructuring:**	**Successful introduction of new financial instruments, structures, or approaches to build liabilities for FI:**	**Business conduct/standards improved (transparency / disclosure):**
A) No. of loan officers trained to the point of ability of	A) Mortgage lending if new in the market	A) Balance-sheet restructuring	A) Tier 2 capital-sub-loans	A) Arm's length transactions' practice adopted / established

extending/underwriting loans without consultants' assistance				
B) No. of trained trainers	B) Flexible interest rate mortgage loans	*A.1) Loans to deposit ratio decreases*	B) Long term deposits in Local currency	B) Related party lending
C) Training to top managers	**Evidence of broader and successful replication of these products by other market players**	*A.2) Share of loan portfolio in local currency increased*	C) Bond instruments	C) Consumer protection standards
D) No. of people trained by trainers	A) increase in volume of the new product in the market beyond that provided by the EBRD client	*A.3) Address maturity or currency mismatches*	D) Syndication	D) Transparent disclosure of FX or other lending risks
Improvement of the relevant business matrix which may be attributed to the skills transfer:	**Evidence of sustainability and likelihood of broader adoption of these products**	**Operational restructuring/relevant business matrix improvement due to restructuring:**	E) Securitisation	E) Transparent corporate structure introduced / Corporate structure streamlined
A) NPL ratio	A) Product profitability	A) Branch network restructuring	**Evidence of successful introduction/replication of these new financing methods in a relevant market**	F) Lending procedures compliant with international standards adopted
B) Efficiency ratios (if operation skills transfer)…	B) Credit performance	B) IT improvements	A) Other banks introduce similar financing instruments with or without EBRD / other IFIs	G) Credit risk assessment / Credit scoring methodology implemented / improved
Specific new methodologies or practices adopted	C) Sustained offering by the client after EBRD resources have been deployed	C) Strategic / Business plan implemented		H) IFRS adopted
A) New credit score model	D) Adoption by other institutions	D) Cost cutting measures implemented / Overhead ratio decreased		**Corporate governance improvements:**
B) Risk management		E) Credit / Loan approval time reduced		A) Independent/EBRD director appointed
Roll out of new methodologies or practices across network		F) Improvement of risk management capacity		B) Supervisory structure introduced / strengthened
		G) Profitability		C) Audit Committee established
		H) Arrears ratios		D) Strategic Management Committee established
		M & A restructuring		E) Asset Allocation Committee established
		A) Successful integration of systems		F) Risk committee established
		B) Introduction of common sales and disclosure practices		G) Independent Risk Management division created / separated
		C) Branch network integration / rationalisation		H) Adequate corporate governance and integrity criteria procedures applied to beneficiaries

In this sector we would distinguish between different kinds of financial institutions – banks, non-banking financial institutions and equity funds – and make different recommendations for each as follows:

Banking financial institutions

- Discontinue the categories *Private ownership* and *Demonstration of new products*, as some private ownership is already implied under *Competition*, and *Demonstration of new products* is not necessarily a positive thing in its own right. The success of desirable new products such as MSME credit lines or energy efficiency credit lines can be covered under *Environmental and social outcomes* and the replication issues can be covered under *Demonstration of new financing methods*.

- Under *Competition,* a useful indicator could be: *Project involves locally owned bank* (to stimulate growth and internal competition within the banking and non-banking sector).
- Under *Market expansion*: Delete references to retail loans. While they have their uses, there is a danger that they are socially more harmful than beneficial, expanding personal debts to unsustainable levels. This is especially the case in situations where local currency markets are not well developed.
  Some useful indicators in this section could be:
  a) Reach/penetration into the local SME sector (weighting in favour of greater number and smaller size of loan facilities).
  b) *Speed of disbursement* (as long as clear and transparent standards are in place for deciding on creditworthiness).
- On *Frameworks for markets*: It is essential to ensure appropriate oversight and transparency for the more complex instruments to be offered as part of the support (guarantees, securitisation etc… etc). It is not enough here to create a Banking Ombudsman but a disclosure indicator is needed. This is because securitisation, guarantees, equity and other such forms of support can hide true levels of debt or potential liability being extended to a certain client. Therefore we propose an indicator on *Creation of a specific mandatory disclosure regime on total financial packages, and the minimum requirements and standards to be adopted.* A regulatory body (such as the national central bank) would collate and check the data which would then be made public in an annual report, with aggregate numbers for each bank (eg. In 2011, XY Bank received EUR 300 million in direct intermediary loans from the EBRD, a further EUR 200 million through an equity investment and EUR 500 million in guarantees from the EBRD.) Such information would provide greater transparency on the flow of EBRD funding through other non-loan channels to this sector and would also help to reveal how much, if any, impact the EBRD's money has in the intermediary sector. We would also add an indicator on *Ensuring that the EBRD project falls under the regulatory jurisdiction of that state's banking oversight body (eg. the Banking Ombudsman or Reserve Bank)* .
- On *Demonstration of successful restructuring*, we would add additional indicators on: *Low ratio of non performing loans* and *Appropriate risk management strategy in place*. The *Profitability* indicator seems surplus to requirement as it is obvious that a business needs to at minimum cover costs if it is to continue functioning, but emphasising profitability may conflict with the need keep down interest rates and effectively serve small businesses and individuals at affordable levels.
- Under *Setting standards...* include indicator on *Equal pay for equal irrespective of gender* and on *Disclosure of the following data on an annual basis or for the project as a whole:*
  - average number of employees of clients
  - average loan size
  - number of sub-projects financed
  - percentage of loan disbursed
  - CO2 reductions from energy efficiency/renewables projects
  - disclosure of environmental category A+B equivalent projects or loans of over EUR 5 million
  - which sectors have been supported in which proportion
  - amount of non-performing sub-loans

Non-banking financial institutions

The EBRD should limit its operations in this sector to non-bank community financial institutions such as credit unions, micro-credit, small-scale leasing, and select forms of insurance provision. If it has not done so already the bank must exclude mortgage lending through non-bank financial intermediaries, as traditionally non- bank intermediaries have suffered from very poor oversight, standards and dubious lending practices even in the sophisticated economies such as UK, USA and Australia. In general, there is very little political will or ability to effectively regulate these players.

In terms of the indicators:

- It must be clear that any indicators relating to mortgages do not include non-banking financial institutions.
- Under *Frameworks for markets*, we would also add an indicator on *Ensuring that the EBRD project falls under the regulatory jurisdiction of that state's banking oversight body (eg. the banking Ombudsman or reserve bank).* Even if the institution involved is not a bank, it needs to be regulated adequately, albeit with attention not to overburden smaller institutions.

Equity Funds

The effects of private equity on society and economies are not fully understood, and for this reason **the EBRD needs to approach the sector with caution rather than promoting it as a staple part of a market economy**. If the EBRD engages in this sector at all, it should rather be in the form of technical assistance projects for greater regulation of equity funds, including the avoidance of the use of offshore financial centres, and avoidance of potential negative social and environmental impacts resulting from equity fund operations.

For all financial institution operations, we also propose a column on *Environmental and social outcomes* as follows:

Environmental and social outcomes
Significant CO_2 reductions from RES and energy efficiency credit lines
Significant increase in the number of micro-, small and medium enterprises served.
Significant increase in the proportion of micro- and small enterprises as a proportion of SMEs served. *(May be useful to set target here).*
Significant increase in the number of female clients served *(May be useful to set target here).*
Number of direct jobs created/number of people re-employed after layoff/retraining scheme
Increase in gender equality/minorities employed
Increase in gender equality/minorities represented at senior management level
All employees earning a living wage
Number of direct jobs created/number of people re-employed after layoff/retraining scheme