

## Operations Cycle Policy

---

### **1. Introduction**

### **2. Initiation**

- a. Identification of the Operation
- b. Purpose of Eligibility Review and Concept Clearance
- c. Eligibility Review
- d. Concept Clearance

### **3. Appraisal and Due Diligence**

- a. Purpose and Description of Appraisal
- b. Tasks and Responsibilities
- c. Term Sheet Preparation

### **4. Board Approval and Signing**

- a. Board Approval
- b. Preparation of Legal Documents
- c. Signing
- d. Declaring Operation Effectiveness (Public Sector Operations)
- e. Disbursing (Non-Public Sector Operations)

### **5. Implementation, Supervision and Monitoring**

- a. Implementation
- b. Supervision
- c. Monitoring
- d. Remedial Actions

### **6. Completion and Evaluation**

- a. Completion
- b. Independent Evaluation

#### ANNEX I: Operations Eligible for Exemption from Certain Stages of the Operations Cycle and Expedited Procedures to be Followed

- a. Definition of Operations Eligible for Exemption
- b. Expedited Procedures
- c. Tasks and Responsibilities

## 1. Introduction

This version of the *Operations Cycle Policy* is an integral part of the Black Sea Trade and Development Bank's (BSTDB, or the Bank) regulatory and policy framework, and it is intended to come under review periodically with a view to updating procedures according to prevailing best practice. It is based on the *Agreement Establishing the Black Sea Trade and Development Bank* (the 'Establishing Agreement'), *Rules and Regulations for Financing Projects and Commercial Activities*, *Financial Policies*, *Portfolio Risk Management and Investment Policies*, and the *Anti-Fraud, Corruption and Money Laundering Policy*. Operational activities undertaken within the framework of the Operations Cycle will conform to the Bank's operational strategic vision. The *Operations Cycle Policy* provides the framework for the preparation and implementation of BSTDB's operations. For further details on the specifics and procedural aspects of these activities, including formats of documents and templates, the *Operations Manual* should be consulted. Documentation formats and templates may be periodically reviewed by the Credit Committee to ensure all key criteria remain appropriate.

As articulated in BSTDB's financial policies and other related strategic documents, the Bank will conduct its operations<sup>1</sup> in accordance with sound banking principles. This requires that all operations in which the Bank participates are technically, economically, financially, legally, and environmentally sound, accord with its policies and represent an acceptable risk. Therefore, the Operations Cycle of the Bank will be guided by the following basic principles:

- Efficiency
- Flexibility
- Consistency with sound banking principles and prudent banking practices
- Transparency, accountability and effective corporate governance
- Fair consideration of any business proposal
- Orientation and responsiveness to Clients' needs

This document sets forth the approval process and authorities governing the Operations Cycle. The Operations Cycle consists of the beginning-to-end steps required to initiate an operation and to manage it until its completion. It complies with the principle that management review of an operation occurs a minimum of two times during the preparation of the operation- near the beginning before resources are committed for appraisal and due diligence, and prior to submission to the Board of Directors. For more complicated operations, intermediate and/or other management reviews may be required.

In addition to direct operations, the Bank also finances beneficiaries through intermediaries. Such operations may in certain instances follow expedited procedures under the Operations Cycle, particularly for operations where the Bank takes the credit risk of the intermediary, and not the end recipient of the financing.

---

<sup>1</sup> The term 'operations' is used throughout the text to refer to projects, programs, or other transactions financed by the Bank, the preparation process for which follows the Operations Cycle Policy.

Syndicated loans in which the Bank participates with another lead arranger represent other instances where the Bank may follow expedited procedures under the Operations Cycle. Annex I defines under what conditions operations would be eligible and lays out the expedited procedures to be followed. In all cases the Bank needs to be satisfied that the proceeds of its financing are used consistent with the Bank's policies and according to the agreed objectives and purposes of the operation.

The Board of Directors will be informed about the progress of operations through periodic Information on Operations, prepared by the Project Implementation and Monitoring Department with updated inputs from the Operation Teams and relevant departments.

Ultimate responsibility for ensuring compliance with the Operations Cycle and the steps mandated therein rests with the Credit Committee. The Credit Committee is also responsible for providing clear guidance during management reviews: approval, rejection, or postponement with clear reasoning as to why an operation is being postponed or rejected. The Operation Leaders, as principal executors, and the Vice President Banking, must ensure compliance with the provisions of this document and the attendant *Operations Manual*, issued for the Operations Cycle's implementation. This paper is organized in the sequence of the main stages of the Operations Cycle:

- Initiation
- Appraisal and Due Diligence
- Board Approval and Signing
- Implementation, Supervision and Monitoring
- Completion and Evaluation

For each of the stages of the Cycle, a process overview is provided, and key high-level activities are outlined with the respective responsibilities and authorities identified. These responsibilities and authorities are of three types:

- Primary – A department/ unit with “primary” responsibility for a process or activity will drive that process or activity to completion and will be held accountable for ultimate results
- Review – A department/ unit with a “review” role has explicit involvement in a process/activity requiring a specific analysis or formal opinion in parallel to, or supplementing, the primary unit
- Support – A department/ unit with a support role will provide opinion or other input on a regular or an “as needed” basis, to primary and review units

In addition, the key reports, legal documents, major control functions, and reporting requirements are outlined.

In conformity with Article 1 of the Establishing Agreement which states that the Bank will provide “banking services to projects of the public and private sectors”, the Bank shows no ex-ante preference for either private or public sector operations. For the

purpose of this document, and consistent with the definition in the Bank's *Procurement Principles and Rules*, public sector operations are operations:

- (i) which are guaranteed by the government or a public agency or instrumentality of the country of operations; or
- (ii) for national or local governments of the country of operations or agencies and businesses majority beneficially owned by any of them, other than such businesses that in the Bank's judgment are operating autonomously in a competitive market environment and are subject to bankruptcy or insolvency law.

## **2. Initiation**

The goal of the initiation process is to identify appropriate operations and to ensure that only those (i) best suited to the Bank's mandate of promoting regional cooperation and economic development, (ii) suitably 'bankable'- meaning that they appear to be financially sound and/ or economically viable- enter the Operations Cycle.

This stage includes the following sequential steps:

- Identification of the operation
- Eligibility Review
- Clearance of the Concept by the Credit Committee

Prior to the Concept Clearance, the Bank will not devote significant resources to the preparation of an operation.

### **a. Identification of the Operation**

In accordance with the Establishing Agreement, the target market for Bank operations is companies, financial institutions, and projects in the Member Countries. The generation of business opportunities will be derived from multiple activities including, but not limited to:

- Marketing initiatives in Member Countries and country missions
- Approach from Clients or Sponsors of the operation
- Financial institutions and Co-financiers (private, public, or multilateral)
- Direct calling of targeted companies
- Referrals from government officials or authorities
- Referral from other institutions or agencies (international or national)

Normally, the Bank will prefer to interact with the "owners" of the operation and the parties directly committed to, and benefiting from, the implementation of the operation. For full assessment of an operation, the Bank has standard information requirements for completion by the contacts for the operation, most of which the Client should provide in a well developed business plan.

Initial inquiries are to be sent directly to BSTDB. The Bank accepts proposals from public agencies, private sector firms, and other entities including special purpose companies, financial institutions, and non-governmental agencies. The scope of the information initially presented needs to be sufficient to enable the Bank to determine whether the proposed operation (i) fits within its mandate, policies and strategies, and (ii) warrants further involvement on the part of the Bank. The applicant/ prospective Client will also provide the name and address of one central contact point for the entire communication period. All operation documentation must be available in English.

All completed business proposals received by the Bank shall be formally registered and filed with the Project Implementation and Monitoring Department which (i) provides a registration number for the operation, and (ii) reports to the Vice Presidents of the Operations and Banking Divisions on a monthly basis. Registration involves input of the operation's name, contact information, sector and country information, but no Operation Data Sheet (ODS) will be prepared yet. The Vice President Banking will assign responsibility for the operation's further review to an Operation Leader.

Handling of inquiries and proposals will be managed in a proactive, service-oriented manner with prompt responses; consequently, the Bank will proceed with the application as quickly as possible depending on the quality and availability of information. The Bank will not begin review until it is satisfied that the requisite initial information is available and accurate.

The Banking Division will have primary authority and responsibility for identification of operations, with significant, regular support from both the Board of Directors and from other Divisions.

**b. Purpose of Eligibility Review and Concept Clearance**

The purpose of the eligibility review and the concept clearance at this stage of the Cycle is to ensure that the Bank's resources are not wasted on deals that have little likelihood of approval or are considered less attractive in comparison with other opportunities available. These reviews are focused on:

- Detecting deals that are not consistent with the Bank's mandate, policies, or strategies
- Detecting deals that have legal issues that disqualify them from current consideration
- Operation Leaders providing the first level of portfolio quality control by performing the Eligibility test
- Ensuring full responsiveness to Clients.
- Ensuring that operations are promptly registered in the Bank's Operations Database and appropriately maintained up to date.

**c. Eligibility Review**

In order to avoid spending resources on applications which do not meet the Bank's strategic objectives and target market definition, an Eligibility Review will be performed to ensure the operation's objectives and benefits are consistent with the Bank's main eligibility criteria specified in the Establishing Agreement (Article 2 and 13) and in the *Rules and Regulations for Financing Projects and Commercial Activities* (Sections 3 and 6). At this stage, the Bank will not normally provide technical assistance to the prospective Client(s), as it is still too early.

The Eligibility Review is an internal step carried out by the Operation Leader in consultation with the Vice President Banking, who 'signs off' on the Eligibility Review. It is intended to ensure maintenance of the Bank principle of responsiveness to Clients by mandating that all proposals receive consideration and all contacts made with the Bank receive at least a reply. It is critical to ensure that all proposals receive a reply from the Bank, even if it is negative. The Operation Leader is responsible to make sure that the proposed operation takes place within or among the Member Countries and that it meets a substantial portion of the following criteria:

- Promotes cooperation between or among Member Countries
- Possesses economic development potential for the Black Sea Region
- Has strong potential for facilitating mobilization of domestic and foreign capital
- Meets, prima facie, the Bank's return on investment criteria, and appears to be commercially viable or operationally sustainable
- Does not finance goods or activities excluded by the Bank's *Negative List of Goods and Activities for Banking Operations*

The Bank shall not formally decline any proposed operation until it completes the Eligibility Review. If the proposed operation fails the Eligibility Review, the Operation Leader (i) provides detailed and relevant arguments, and (ii) communicates the result in writing to the Client/ Sponsor and copies the Project Implementation and Monitoring Department. If Eligibility Review is successfully completed, the Operation Leader informs the Client/ Sponsor and proceeds to Concept Clearance. At this point, an ODS is generated by the Operations Database. It is the responsibility of the Operation Leader to make sure that appropriate information is made available to the Project Implementation and Monitoring Department for updating the Operations Database in a timely manner, as the preparation of the operation advances through the various stages of the Operations Cycle. The *Operations Manual* contains a detailed description of the Eligibility Review.

A confidentiality agreement between the Client and the Bank may be prepared at this point, but this should occur only on the basis of a request by the Client, and it must be structured appropriately and subject to the approval of the Office of the General Counsel.

The Operation Leader will be responsible for driving the Eligibility Review.

**d. Concept Clearance**

Once the Vice President Banking has signed the Eligibility Review, the Operation Leader begins preparation of the Concept Clearance Document (CCD) for the consideration of the Credit Committee. The CCD is a conceptual note, and is not intended to be a technically detailed document. Key components of the content of the CCD, which is described in detail in the *Operations Manual*, are:

- Description of the operation, including objectives, anticipated role of the Bank, preliminary assessment of feasibility, preliminary development and regional cooperation impact analysis, outline of market, or the type of information that will be collected in order to assess the market/ sector during appraisal
- Assessment of consistency with, and support for, the Bank's developmental strategies, with reference to the Bank's mandate and relevant country and sector strategies
- Information on the Client and all parties involved, including that all the parties to be involved in the operation are legal entities, duly incorporated in the countries of their residence
- Outline of terms and conditions of financing facility requested (including exit strategy if equity investment)
- Preliminary assessment of historical financial performance, key financial indicators, and financial projections (if available, and requested by the Banking Division)
- Anticipated security arrangements
- Expected effect of the operation on the Bank's exposure guidelines and operational limits
- Anticipated main risk areas and how risks will be mitigated
- Preview of environmental issues, if any, likely to arise
- Preliminary assessment of the operation as public or private sector for procurement purposes, and outline of (i) procedures to be adopted, and (ii) procurement issues for review
- Estimated timetable for next steps, including proposed composition of the Operation Team, consultant needs (if known), and expected budgetary needs
- Any other relevant issues

The activities associated with Concept Clearance will be the primary authority and responsibility of the Operation Leader. The Operation Leader represents BSTDB's key contact person for the Clients, the Sponsors, and any other parties involved in the proposed operation. In preparing for Concept Clearance, the Operation Leader may employ relevant resources of the Bank, including specialists from other Divisions. The Financial Analysis Department will perform the preliminary financial assessment, and will help to highlight expected financial issues. The Office of the Chief Economist will provide an initial assessment of the economic development and regional cooperation impact of the proposed operation, the Environmental Unit will preview the environmental

issues and the Procurement and Technical Support Unit will perform the preliminary assessment of procurement issues. The Risk Management Department will have a review role, which includes verifying compliance with country and portfolio exposure guidelines, commenting on security, and expressing a preliminary opinion of the operation's financial structure and risk profile.

The Operation Leader presents the CCD to the Vice President Banking for review. The Vice President Banking presents the CCD together with a recommendation to the Credit Committee for Concept Clearance (the presentation may be delegated to the Operation Leader). If the operation fails Concept Clearance, the Operation Leader will inform the Client accordingly. If Concept Clearance is successfully completed a Letter of Information, as outlined in the *Operations Manual*, shall normally be prepared by the Operation Leader, reviewed by the Office of the General Counsel and sent to the Client or Sponsor for completion and signature. In addition, a Mandate Letter shall normally be prepared by the Operation Leader for non-public sector operations (except in the case of simple syndications and co-financing), in the form set forth in the *Operations Manual*, cleared by the Office of the General Counsel and signed by the Vice President Banking on behalf of the Bank and sent to the Client or Sponsor with the request to counter-sign it. For public sector operations, a Request Letter, issued by the respective state or state agency needs to be received by the Bank. Under no circumstances shall the Mandate Letter, or the Bank's reply to the Request Letter, represent a commitment from the side of the Bank to provide or otherwise offer financial support to the proposed operation.

Concept Clearance is valid for a period of nine months. In the event presentation of the operation for Final Review takes longer than nine months, the operation should be resubmitted to the Credit Committee to renew the Concept Clearance. Should an operation be suspended or cancelled in the period immediately after Concept Clearance, this should be promptly notified to the Project Implementation and Monitoring Department and reflected in the ODS as well. Material changes to the operation, relative to what was presented at Concept Clearance, should also be resubmitted to the Credit Committee for renewal of Concept Clearance. The *Operations Manual* provides further detail of what constitute material changes, as the particular details may change over time.

### **3. Appraisal and Due Diligence**

#### **a. Purpose and Description of Appraisal**

Once the operation passes Concept Clearance, and the Client has signed and returned the Mandate Letter/ Request Letter (as needed), the Operation Team carries out Appraisal and Due Diligence. The Appraisal and Due Diligence stage is designed to (i) describe the Bank's prospective involvement (ii) identify and elaborate upon key issues, including necessary information on the operation, the client, the financing plan, and the market, and (iii) capture all major risk

areas and ensure they are properly evaluated. Since financing of the operation may span economic cycles and political changes, the evaluation may need to include sensitivity analysis to assess outcomes under various scenarios.

The Client/ Sponsor is expected to have presented a comprehensive proposal, including all necessary information for the appraisal of the operation. The information requirements are specified in the *Operations Manual*. The Bank may ask the Client/ Sponsor to revise or improve information provided, if these requirements are not met. Technical assistance financing may be provided by the Bank for the development/ upgrading of the needed information at this stage. This assistance is provided directly to the advisors commissioned for the work following selection in accordance with the Bank's policies and procedures for the selection and hiring of consultants.

The principal output of the Appraisal and Due Diligence stage is the Final Review Document (FRD), a comprehensive document which builds upon the CCD and includes detailed information about the following:

- Executive summary and recommendations
- Description of the operation
- Analysis of the relevant market
- Assessment of the creditworthiness of key parties involved (including ultimate beneficiary)
- Terms, conditions, and covenants of the financing facility requested (or exit strategy if investment)
- Bank-prepared financial analysis (including, at least, cash flow analysis and sensitivity analysis)
- Key risk areas and how risks will be mitigated
- Description of the security package
- An assessment of all relevant issues (e.g. legal and regulatory, technology)
- Procurement procedures to be applied (confirmation/ revision of classification), and a detailed schedule of procurement (for private sector operations)/ procurement plan (public sector operations)
- Plan of disbursement, including procedures to be applied
- Economic and environmental assessment
- Implementation plan, including key monitoring indicators for the operation
- Lessons learned from past experiences, from within the Bank and externally

The components of the Appraisal and Due Diligence, as well as the recommended structure of the FRD, are covered in detail in the *Operations Manual*. The FRD represents the core document presented to the Credit Committee at Final Review, accompanied by the signed Term Sheet. A valid CCD, a signed Mandate Letter/ Request Letter and the completed Letter of Information should be in the possession of the Bank at this stage, and full financial projections for the operation must be available upon request.

**b. Tasks and Responsibilities**

Preparation of the FRD is the responsibility of the Operation Leader who has the authority to coordinate and drive the activity. The nature of the document requires support from members of other departments or units within the Bank. In addition, there are departments or units which have a review role; specifically:

*Primary Role*

- The Operation Leader heads the Operation Team, and has (i) full authority to coordinate all inputs required and conduct all steps involved in the appraisal of the operation and the performance of due diligence, and (ii) the responsibility to disseminate the information – as well as the operation’s assumptions- necessary for other Operation Team members. The Operation Leader conducts the technical analysis with inputs from other Operation Team members according to their respective expertise. The analysis covers the technical aspects of the operation such as the nature of the relevant market for the operation, whether distribution channels exist and how they can be best utilized.

*Support Role*

- The Financial Analysis Department performs the required financial analyses of the operations independently. It produces the Financial Analysis Report for the FRD which includes (i) a comprehensive assessment of the forecasted financial performance of the operation over its intended life, (ii) assessment of the creditworthiness of the key parties involved, (iii) sensitivity analysis, and (iv) provision of input for required financial covenants.
- The Finance Division, depending upon the nature of the operation, will provide an assessment of the market values of any securities used as collateral, employing external valuers as needed.
- The main responsibilities of the Office of the General Counsel include the review of the legal framework in which the operation occurs, the identification of any critical legal issues, the review and approval of the draft Letter of Information to be sent to the Client, and participation in the preparation and negotiation of the Term Sheet. It is also the responsibility of the Office of the General Counsel to review other legal documents submitted to the Bank by the Client/ Sponsor, and to point out any item or any inconsistency that may cause delay during later stages. For complex operations, the Office of the General Counsel may require the use of external legal expertise, for the best protection of the Bank’s interests. For Final Review, the Office of the General Counsel prepares a Final Review Memorandum containing a summary of legal issues in connection with the operation.

- The Office of the Chief Economist (i) provides an updated background on the macroeconomic situation in the countries of operation, and may offer input on sector specific issues in the regional market as well as global conditions, and (ii) performs the economic analysis to assess the extent to which the operation generates value for the Bank's shareholders. Particular attention is paid to 'externality costs and benefits' generated by the operation beyond the financial figures.
- The Procurement and Technical Support Unit provides independent advisory, support and review functions, addressing technical matters, procurement policies and procedures and proper application of the *Procurement Principles and Rules*. Public sector operations typically require formal notification and application of rigorous, staged, procedures to be eligible for financing. The Procurement and Technical Support Unit reviews and compares the legal documents and the FRD for consistency and conformity. For private sector operations, and operations through financial intermediaries when the tenor is not more than four years, the process is formal but less prescriptive. The Operation Team may need to select and hire consultants to assist in the review and supervision processes for public sector operations and for due diligence in other operations.
- The Environmental Unit provides independent advisory, support and review functions on environmental issues, identifying what environmental risks and issues exist (if any), what mitigation may be required, and striving to enhance environmental potential within an operation. The Unit may require external experts to review the operation's assumptions and environmental compliance.
- The Evaluation Office will contribute input on lessons learned from previous operations of the Bank, as well as recommendations based upon existing best practices of international financial institutions.

#### *Review Role*

- The Project Implementation and Monitoring Department has two main roles. First, it handles operation administration activities, including the registration and recording of the progress of an operation in the Operations Database, based mainly upon the timely and regular updates provided by the Operation Team of the operation's advancing through its preparatory cycle. Second, to assist the Bank in the monitoring and evaluation of the operation, it provides at pre-signing stages recommendations for issues concerning the implementation of the operation and its monitoring, including relevant covenants and the development of key indicators for monitoring and reporting purposes.
- The Risk Management Department is responsible for following up with country ratings and all institutional and operational limits throughout the appraisal process and for exchanging information with the Operation

Leader about any significant changes that may occur in the risk position of a specific operation versus established credit risk parameters. For Final Review, the Risk Management Department issues a Specific Risk Assessment with its formal opinion on the proposed operation.

Appraisal normally involves at least one visit to the site of the operation by members of the Operation Team. Depending on the size and complexity of the operation, the availability of needed information, and the quality of the business proposal, the time period required for appraisal would normally vary from two to six months, possibly more for public sector operations. As stated, by the end of the appraisal, the Operation Leader will combine the analyses and reports of the Operation Team into the FRD to be presented to the Credit Committee for Final Review. The Operation Leader is also responsible for providing timely reports and updates of the operation for the Bank's Operations Database.

#### **c. Term Sheet Preparation**

The FRD presented to the Credit Committee for Final Review should be accompanied by a final draft of the legal documents (e.g. for a public sector operation) or a signed Term Sheet in other cases. The Term Sheet is the document describing in a comprehensive but concise manner the terms and conditions under which the Bank is prepared to provide financial support to the operation. It includes both the principal terms of the proposed operation such as amount of financing (exposure) of the Bank, interest rate, commissions, price of equity, tenors, security, additional support from the Client/ Sponsor, etc. and other terms such as conditions precedent to the effectiveness of the financing, affirmative and negative covenants, environmental and procurement requirements and co-financing arrangements. Preparation of the Term Sheet is coordinated by the Operation Leader, is cleared by the Office of the General Counsel and based on the pricing recommendations of the Risk Management Department and incorporating provisions consistent with the *Procurement Principles and Rules*, as well as the recommendations of the Financial Analysis Department, the Project Implementation and Monitoring Department, and Loans Administration in the Controllers' Department regarding their responsibilities. The Term Sheet constitutes the commercial framework for the proposed Operation upon which the legal documentation are based.

### **4. Board Approval and Signing**

Upon the approval of the FRD by the Credit Committee, the Operation Team will prepare the operation for presentation to the Board of Directors.

#### **a. Board Approval**

The Operation Leader prepares the Board Package for submission of the operation to the Board of Directors for approval. The Board Package contains a) the President's Memorandum to the Board of Directors, b) the Board Document, and c) a proposed draft of the Board decision.. Details and content of the Board

Document to be sent to the Board of Directors are discussed in further detail in the *Operations Manual*.

For syndicated operations in which the Bank is participant, not lead arranger, approval by the Board of Directors may follow the procedures laid out in *Rules and Procedures for Board of Directors' Approval without a Meeting*. In all other operations, the Board of Directors should receive the Board Package according to the timeline and procedures laid out in *Rules of Procedure of the Board of Directors*. At the Board Meeting, the Vice President Banking and/ or the Operation Leader makes a brief presentation of the proposal. The Board subsequently, by a simple majority vote, either approves or rejects the proposal. In either case, the Operation Leader will be responsible for communicating the Board's decision to all interested parties.

Board approval shall be valid for a period of nine months after the date of approval. If the operation Agreement (e.g. loan agreement, fund agreement, etc, see section below) is not signed in the following nine month period, the Operation Leader shall prepare a report on the delays, a reassessment of the risks, and a recommendation for review by the Credit Committee and consideration by the Board of Directors. The Board shall decide whether its approval still holds, or if some alternative course of action (restructuring, cancellation, etc.) is required.

**b. Preparation of Legal Documents**

The legal counsel assigned to the operation arranges the preparation of the draft legal documentation, consistent with the internal approved documentation, and amended, as necessary, to reflect the decision of the Board of Directors. The drafts of the legal documentation are (i) cleared with Loans Administration in the Controllers' Department, the Project Implementation and Monitoring Department and, for public sector operations, the Procurement and Technical Support Unit- within three working days, (ii) approved by the Office of the General Counsel and then (iii) communicated with the Client. Subsequently, the drafts are sent to the Client, Sponsors, and other parties involved in the operation, as the case may be.

Any conditions or mitigants that surface during legal documentation preparation and have the potential to alter the Bank's pricing parameters must be reported to the Risk Management Department before any alterations can be made. If during the negotiations, there are any material changes to the terms, conditions and covenants relative to those presented to the Credit Committee (normally in the Term Sheet) and the operation presented to the Board of Directors, the Credit Committee and the Board of Directors must approve them and re-authorize final negotiation of the operation's legal documentation.

**c. Signing**

Following Board Approval and finalization of the operation's legal documentation, the Bank and the Client will proceed to the signing of the legal

documentation. The President of BSTDB, as the legal representative of the Bank, may sign any legal document to which the Bank is a party or may delegate the authority to sign to another member of the Bank's management or staff, according to the rules on delegation of authority. An operation's legal documentation will comprise documents the essential purpose of which is to achieve the best legal protection of the Bank's interests, and which will accurately represent the legal structure of the operation as determined by the Office of the General Counsel and as intended in the Term Sheet. The legal documentation may include, without limitation, any of the following:

- Operation Agreement (e.g. loan agreement, fund agreement, etc.)
- Security Agreements
- Co-financing Agreement
- Agency Agreement
- Other contractual arrangements

This stage is considered completed once the Closing Memorandum is issued by the Office of the General Counsel. The Closing Memorandum should confirm that the signed legal documentation is fully consistent with the essential parameters of the operation as approved by the Credit Committee and the Board of Directors.

**d. Declaring Operation Effectiveness (Public Sector Operations)**

A public sector operation will be declared effective when the conditions of effectiveness set out in the operation Agreement have been fulfilled. No drawdown is made until the operation Agreement and related legal documentation have been declared effective. For conditions of effectiveness that are of a legal nature, the Operation Leader obtains confirmation from the assigned lawyer on compliance with such conditions. Compliance with conditions of effectiveness that are not of a legal nature is to be confirmed by the Operation Leader, who is responsible for taking advice, as appropriate, from relevant units of the Bank. The legal notice declaring the loan effective is prepared by the assigned legal counsel in consultation with the Operation Leader. The *Operations Manual* lays out details related to Effectiveness.

**e. Disbursing (Non-Public Sector Operations)**

The disbursement of the Bank's funds in respect of a non-public sector operation will take place with the observance of all provisions of the relevant legal documentation, including fulfillment to the Bank's satisfaction (or waiver of) conditions precedent. Compliance with conditions precedent that are of a legal nature is to be confirmed by the assigned lawyer. Compliance with conditions precedent that are not of a legal nature is to be confirmed by the Operation Leader, who is responsible for taking advice, as appropriate, from relevant units of the Bank. The commitment of Bank funds under a guarantee commences when the guarantee comes into force in accordance with its terms. The *Operations Manual* lays out details related to the process of establishing conditions precedent.

## **5. Implementation, Supervision and Monitoring**

### **a. Implementation**

This stage covers the period between the effectiveness of a public sector operation or disbursement of a non-public sector operation and the completion of the operation (or termination of a revolving facility). Completion of the operation is generally defined as the date at which the technical execution, or carrying out, of the operation is completed. Because of the need to monitor repayments and the fulfillment of all financial obligations, financial monitoring will continue until the Closing Date of the operation. Closing Date is defined as the date at which any liabilities of the Bank, and liabilities or financial obligations of the Client(s) to the Bank have been fulfilled (e.g. full repayment of a loan, completion of exit from an equity investment, or expiration of a guarantee).

The main activities on the part of the Bank during implementation involve any review and 'no-objection' processes in accordance with the legal documentation, execution of the disbursement schedule, as well as supervision and monitoring of the implementation. In the case of a public sector operation, all relevant procurement documentation should be ready to the extent possible by effectiveness. The Operation Team shall do everything possible to prevent the risk of indefinite delays in implementation of the operation or budget cost overruns due to problems or delays in execution of the procurement procedures.

Disbursement shall occur according to the schedule laid out in the relevant legal documentation. Bank funds may only be used for approved purposes. Loans Administration in the Controllers' Department clears all disbursement applications prior to effecting the disbursement, monitors compliance with the disbursement schedule and reports on breaches. The granting of waivers, amendments and notices is initiated by the Operation Team, in coordination with the Project Implementation and Monitoring Department and other units as needed, and submitted to the Credit Committee for approval<sup>2</sup>. Disbursement activities, and the associated responsibilities, documentation, and controls, are specified in detail in the relevant documents covering procedures for disbursement.

### **b. Supervision**

A strong implementation and evaluation plan with clearly identified, easily measurable indicators of progress will greatly facilitate effective supervision of operations. The Operation Team in conjunction with the Client/ Sponsor will define and select indicators which focus on:

---

<sup>2</sup> The Credit Committee may opt to delegate certain aspects of the granting of waivers, amendments and notices.

- Demonstrating progress in key components of the operation to date
- Identifying completion of key procedural steps
- Determining whether desired specific outcomes of the operation are being attained, and to what extent

The Client will prepare regular reports, which may conform to their own formats and standards, but which must contain essential information concerning the implementation of the operation. The ultimate responsibility for the operation remains with the Operation Team, which must maintain contact with the client. The Operation Team, with inputs from other units as needed, is responsible for preparation of Supervision Reports on the basis of information provided by the Client and information received during supervision trips to the site and information obtained from sources within and outside the Bank. The Supervision Reports will describe progress of the operation including key outstanding issues, the status of covenants and conditions, measurement of any relevant indicators and performance milestones. The frequency of the Supervision Reports is determined by the risk rating of the operation, calculated by the Risk Management Department which will prepare a supervision schedule in consultation with the Operation Leader and the Project Implementation and Monitoring Department, but will definitely occur at least once per annum. All Supervision Reports are presented to the Project Implementation and Monitoring Department. The *Operations Manual* describes the supervision process and Supervision Reports in greater detail.

### c. **Monitoring**

The monitoring process differs from supervision in that it is carried out by independent units outside the authority of the Operation Leader, and focuses on different quantitative and qualitative aspects of an operation, including the Client's fulfillment of obligations and covenants spelled out in the legal documentation. There exist different types of monitoring, and they focus on a range of issues including (but not necessarily limited to):

- Attainment of indicators specified in the FRD
- Realization of stated purpose
- Sustainability/ Viability
- Assessment of the cooperation and development impact achieved
- Compliance with covenants of the operation
- Overall performance of the Bank's investment

Monitoring also performs a quality control function, aiming at early detection of events that might adversely impact repayment, or the value of securities. Monitoring for an operation continues until the Bank's loan is repaid, equity stake is liquidated, or the Bank's guarantee liability ends. Monitoring activities are the responsibility of, and are coordinated by, the Project Implementation and Monitoring Department, with input from other units as needed. The Project Implementation and Monitoring Department, with inputs from other concerned units, prepares a Monitoring Report on the basis of each Supervision Report

received. Monitoring of the financial and quality aspects of an operation include, but are not limited to:

- Degree of fulfillment of conditions precedent to disbursement in the loan agreement, as well as observance (or not) of covenants
- Compliance with time-schedules for disbursement
- Use of financing – including missing or unsatisfactory documentation on the expenditures
- Fulfillment of payment obligations (interest, principal, and others), as well as non-payment
- Credit (loan and guarantee) and investment quality factors (e.g. industry environment, competitive position, financial condition, management quality, collateral quality)
- Client credit and investment features (e.g. credit requirements, “ways out”, “specific event” risks)
- Undesirable fluctuations, or otherwise “negative” values of the monitoring indicators including, but not limited to, key financial ratios.
- Significant divergence between the assumptions made during appraisal and current conditions
- Monitoring early warning signals of quality deterioration, financial covenants, delays in performing financial duties, and assessment of quality of security and collateral thereunder.

The monitoring process and related documentation are covered in detail in the *Operations Manual*.

#### **d. Remedial Actions**

When regular monitoring, a formal risk asset review performed for the purpose of operations classification and provisioning, a country review, or the ad hoc receipt of relevant information reveals an asset whose quality has deteriorated below an acceptable level, the issue will be reported by the unit having traced/discovered the issue to the Project Implementation and Monitoring Department. The Project Implementation and Monitoring Department, in consultation with the Operation Team, will prepare a report, as appropriate, for the Credit Committee. Among other things, the Credit Committee will decide whether special handling is required. In such a case, management responsibility for the operation will be assigned to a team coordinated by the Project Implementation and Monitoring Department, with involvement from a member of the Operation Team originally responsible for the operation, and representatives from the Financial Analysis Department, the Risk Management Department, the Controller's Department, the Office of the General Counsel, and any other relevant staff member for the purpose.

The team's functions shall include, but are not limited to; performing a full audit of the operation to determine its current or potential future worth; establishing constant links with the obligor; liaising with co-lenders to decide on a unified strategy for dealing with the obligor; utilizing external legal counsels or evaluators, when necessary; and presenting the Credit Committee with

options on how to deal with the asset. The strategy may, for example, include (individually or in combination) the following types of actions:

- Restructuring of a loan (with or without partial write-off)
- Injection of additional capital or loans to facilitate turnaround of the operation
- Conversion of debt to equity
- Liquidation/ termination of an investment or enforcement of security
- Removal and replacement of the company/Operation management team
- Negotiation of a merger or acquisition
- Negotiation of legal actions
- Other actions, e.g. suspension, cancellation, or acceleration

When a remedial management strategy incorporating one or more of the above actions has been developed, a detailed action plan for strategy implementation will be formulated and approval obtained from the Credit Committee for strategy execution. Where the alterations are deemed by the Credit Committee to have substantially altered the nature of the operation, or where other overriding reasons exist, the action plan and/ or revised operation may be sent to the Board of Directors for approval. Details regarding remedial actions are provided in the *Operations Manual*.

## **6. Completion and Evaluation**

### **a. Completion**

The Operation Team notifies the Project Implementation and Monitoring Department and the Evaluation Office of the Completion of the operation. Completion of the operation presents the opportunity to utilize hindsight to evaluate the operation in light of its results and is an important step for reviewing the impact of Bank operations and measuring success. More importantly, evaluation of completed operations, also known as post-evaluation, serves two key functions: (i) accountability to the Bank's management and shareholders that reveals the level of fulfillment of BSTDB's mandate and (ii) learning-based improvement of future operations through the feedback of lessons learned from evaluated operations. Evaluation of completed operations highlights areas in which the Bank may improve procedures internally, identifies ways in which it may adopt best practices, and provides valuable experience for dealing with similar operations and Clients in the future. As a result, the Bank can apply the lessons learned to future operations in order to improve their performance.

The principal vehicle for conducting this assessment is the Operation Completion Report (OCR). The OCR is a systematic self-assessment document providing information on the operation's performance. The Operation Team produces the OCR within six months of the Completion of the operation and submits it to the Credit Committee and the Evaluation Office. The OCR replaces the regular Monitoring Report which would be due after the Completion date.

The *Operations Manual* provides further details on the structure and scope of the OCR.

**b. Independent Evaluation**

Completed operations are subjected to a thorough and systematic evaluation performed by the Evaluation Office. The Evaluation Office analyzes all available sources of information, including operation files, discussions with involved persons at BSTDB and the Client, as well as site reviews. This results in an Operation Performance Evaluation Report that provides comprehensive information on the following:

- Relevance vis-à-vis the BSTDB mandate and strategic documents, as well as the stated priorities of the country;
- Success in reaching the operation's main goals and objectives, i.e. operation effectiveness;
- The cost of achieving the operation effectiveness, i.e. operation efficiency;
- The development, cooperation and other impacts of the operation;
- The operation's commercial viability/ sustainability;
- Conformity with the provisions in the legal documents;
- Problems and unresolved issues, with feedback on how things might have been done better;
- The Bank's role in the implementation, and successes or failures attributable to the Bank;
- The Client's role in the implementation, and successes or failures attributable to the Client;
- Specific actions required to achieve the operation's development and cooperation impact;
- Lessons Learned and recommendations to be observed in the preparation/ implementation of future similar operations;

Upon the request of the President, the Evaluation Office also performs mid-term reviews on selected operations, as well as various evaluation studies and reviews in order to identify broader trends and to provide feedback on best practices and lessons learned. The framework of the operations evaluation process is governed by a dedicated policy, the *Evaluation Policy*.

## **ANNEX I: Operations Eligible for Exemption from Certain Stages of the Operations Cycle and Expedited Procedures to be Followed**

### **a. Definition of Operations Eligible for Exemption**

There are certain types of operations which display the following characteristics:

- Conformity to the overall mandate and operational policies of the Bank,
- Absence of controversial legal issues
- A standard structure containing well-established, and normally acceptable risk characteristics.

For these types of operations, steps such as Eligibility Review and Concept Clearance would add little value from a quality control perspective, and instead there is the risk that valuable time may be expended for steps that are unnecessary.

In addition, the Bank may participate in syndications, for which much if not all of the required due diligence may already be prepared by the lead arranger by the time the Bank enters the operation, and for which quick decision making and fast approval are necessary in order to avoid delaying the operation and the Bank's participation therein.

In these instances, expedited procedures may be applied. The expedited procedures would not require the conduct of stages such as Eligibility Review and Concept Clearance, they would modify steps taken within other stages, and would permit the operation to proceed through the preparation promptly and prudently. For operations involving intermediaries, an absolute prerequisite for eligibility is that the Bank would be taking credit risk only on the intermediary, not the end recipient of the financing. In light of the above, the following types of operations may follow expedited procedures:

- Credit lines to financial intermediaries for trade finance. These products include pre-export financing, guarantees and multiple-buyer credits;
- Credit lines to financial intermediaries for on-lending to small and medium enterprises (SMEs) in conformity with the Bank's SME Strategy;
- Credit lines to leasing companies;
- Syndications in which the Bank is a participant (not the lead arranger).

Even if an operation appears to meet all of the criteria enumerated above, the Operation Team and the Risk Management Department retain the authority to determine whether or not expedited procedures should be applied, or whether the full Operations Cycle would be preferred.

This definition of eligible operations may be amended from time to time according to the priorities of the Credit Committee and prevailing best practice.

Since it involves exemptions within the framework of the overall Operations Cycle, it does not in any material way alter the Operations Cycle itself. As such, any amendment to the definition of eligible operations would require only Credit Committee approval, and notification of the Board of Directors, rather than approval of the Board of Directors.

**b. Expedited Procedures**

*i. Initiation and Appraisal and Due Diligence of Financial Intermediaries*

The Operation Team will identify potentially eligible financial intermediaries and initiate the establishment of credit lines to the intermediaries. Based on information received from the financial intermediary, the Operation Leader will request a preliminary assessment of the financial intermediary to be performed by the Financial Analysis Department according to the *Guidelines for the Appraisal and Selection of Financial Intermediaries*. The Operation Leader will recommend a maximum exposure amount and tenor.

Should the preliminary assessment determine that the financial intermediary meets the Bank's criteria to receive financing, the Operation Team prepares and sends a draft of the Letter of Information (LOI) to the client and a draft Mandate Letter for countersignature. The LOI should be signed and received prior to discussion of the operation by the Board of Directors.

The operation moves on to the Appraisal and Due Diligence stage, during which the Financial Analysis Department, in consultation with the Operation Leader, carries out a full analysis of the prospective financial intermediary, while the Operation Leader coordinates the preparation of the Final Review Document. The Final Review Document follows the guidelines of Section 3.a. Since the exact nature of the end recipients of financing through the intermediary will likely not be known yet, a solid profile description of the targeted end beneficiaries is required. The full financial analysis of the prospective intermediary is submitted to the Risk Management Department which in turn confirms specific exposure and tenor limits for the prospective intermediary. The Risk Management Department also makes pricing recommendations for the Operation.

The Term Sheet describes the terms and conditions under which the Bank shall provide financing for the operation, and the procedures for its preparation follow those mentioned in the main body of the *Operations Cycle Policy* for Term Sheet preparation (Section 3.c). Preparation of the draft Term Sheet begins during Appraisal and is updated as necessary so that by the time Final Review takes place, the Term Sheet is negotiated and the client has marked its acceptance of the agreed terms by signing the Term Sheet itself or confirming in writing its full agreement therewith. The Operation Leader proceeds to include the signed Term Sheet with the FRD and other required documentation at submission to the Credit

Committee for Final Review. At Final Review, the Credit Committee considers the operation. If Final Review is successfully completed, the Operation Leader informs the Client and prepares for submission of the operation to the Board of Directors, for its approval.

*ii. Initiation and Appraisal and Due Diligence for Syndication Participations*

The Operation Team will identify the syndicated operation for which Bank participation is proposed. In light of discussions with the lead arranger and other participants in the syndication, the Operation Leader will recommend the amount for Bank participation, as well as any key features resulting from the Bank's participation in the syndication.

Since it may not be possible to request a Mandate Letter, the Bank should follow the same provisions as other syndication participants with respect to recovery of preparation costs. As for the LOI, if the information the Bank requires is available in other forms or formats, such as the Information Memorandum, then an LOI may not be required. If the Bank required information is missing, then the Bank reserves the right to request additional information from the Lead Arranger. Otherwise, an LOI (appropriately prepared to request the still needed information and not duplicative) must be prepared, and the LOI should be signed and received prior to Final Review.

The operation moves on to the Appraisal and Due Diligence stage, during which the Operation Leader coordinates the preparation of the Final Review Document (FRD). Content-wise, the FRD follows the guidelines of Section 3.a. To the extent the due diligence of the lead arranger is reliable and comprehensive, the Bank may rely on the arranger's analysis, although ultimate responsibility for proper and thorough due diligence remains with the Operation Team. All of the Bank's support units continue to perform their usual due diligence and provide opinions pertaining to their area of responsibility. The Risk Management Department determines the acceptability, or otherwise, of the pricing and security structure of the syndicated operation and the Bank's portion therein. Where the Bank participates in syndications, it will in all likelihood follow the Term Sheet of the lead arranger.

By the time Final Review takes place, the terms and conditions under which the Bank shall provide financing for the syndicated operation should be fully known and agreed. The Operation Leader proceeds to include the signed Term Sheet with the FRD and other required documentation at submission to the Credit Committee for Final Review. In exceptional circumstances, a Term Sheet that is not yet signed but has been substantially negotiated may be accepted at Final Review, but it should then be accompanied by an explanation as to why it could not yet be signed.

At Final Review, the Credit Committee considers the operation. If Final Review is successfully completed, the Operation Leader informs the Client (and the Lead Arranger) and prepares for submission of the operation to the Board of Directors, for its approval.

*iii. Board Approval Through Completion and Evaluation*

For syndicated operations in which the Bank is participant, not lead arranger, approval by the Board of Directors may follow the procedures laid out in *Rules and Procedures for Board of Directors' Approval without a Meeting*. For financial intermediary operations (including leasing), the process of Board Approval follows the relevant sections of the Operations Cycle Policy (Section 4.a).

For all operations, procedures for the preparation of legal documentation (Section 4.b), and Signing (Section 4.c) follow the relevant sections of the Operations Cycle Policy. Disbursement follows the procedures mentioned in Disbursement (Section 4.e) as well as the provisions of the *Disbursement Handbook* for specific products. Implementation, supervision and monitoring follows the provisions of Sections 5.a and 5.b with respect to (i) determination of the schedule for supervision, (ii) granting of waivers, amendments, and notices, (iii) use of applicable documents for disbursement and (iv) preparation of Supervision Reports- albeit with due reference to the *Guidelines for the Appraisal and Selection of Financial Intermediaries*. The procedures for Monitoring (Section 5.c), Remedial Actions (Section 5.d) and Completion and Evaluation (Section 6) are as per the main body of the *Operations Cycle Policy*.

### c. Tasks and Responsibilities

- The Operation Leader heads the Operation Team, and has (i) full authority to coordinate all inputs required and conduct all steps involved in the preparation of the operation, and (ii) the responsibility to disseminate the information – as well as the operation’s assumptions- necessary for other Operation Team members. The Operation Leader conducts any technical analysis required with inputs from other Operation Team members according to their respective expertise, and makes the recommendation for maximum amount and tenor. The Operation Leader is also responsible for providing timely reports and updates of the operation for the Bank’s Operations Database.
- The Financial Analysis Department performs the required preliminary and full financial analyses of the operations independently. It produces the Due Diligence Financial Analysis report, which contains a comprehensive analysis of the creditworthiness of the financial intermediary performed in accordance with the *Guidelines for the Appraisal and Selection of Financial Intermediaries*.
- The main responsibilities of the Office of the General Counsel include the review of the legal framework in which the operation occurs, the identification of any critical legal issues, the review and approval of the draft Letter of Information to be sent to the Client, and participation in the preparation and negotiation of the Term Sheet. It is also the responsibility of the Office of the General Counsel to review other legal documents submitted to the Bank by the prospective financial intermediary, and to point out any item or any inconsistency that may cause delay during later stages. For complex operations, the Office of the General Counsel may

require the use of external legal expertise, for best protection of the Bank's interests.

- Other departments and units provide support independently, but under the coordination of the Operation Leader, according to the tasks and responsibilities outlined in Section 3.b of the *Operations Cycle Policy*.
- The Project Implementation and Monitoring Department has two main roles. First, it handles operation administration activities, including the registration and recording of the progress of an operation in the Operations Database, based mainly upon the timely and regular updates provided by the Operation Team. Second, to assist the Bank in the monitoring of the operation, it provides at pre-signing stages recommendations for issues concerning the implementation of the operation and its monitoring, including relevant covenants and the development of key indicators for monitoring and reporting purposes.
- The Risk Management Department provides its formal opinion with regard to the proposed maximum exposure amount and tenor for a financial intermediary. It is also responsible for following up with country ratings and all institutional and operational limits throughout the preparation of the operation and for exchanging information with the Operation Leader about any significant changes that may occur in the risk position of a specific operation versus established credit risk parameters.