



<b>1. Project Data:</b>		<b>Date Posted :</b> 07/26/2001	
<b>PROJ ID:</b> P050892		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Emergency Pilot Credit For Republika Srpska	<b>Project Costs (US\$M)</b>	20	11.06
<b>Country:</b> Bosnia-Herzegovina	<b>Loan/Credit (US\$M)</b>	5	5
<b>Sector(s):</b> Board: FSP - Micro- and SME finance (90%), Central government administration (10%)	<b>Cofinancing (US\$M)</b>	15	6.06
<b>L/C Number:</b> C3070			
	<b>Board Approval (FY)</b>		98
<b>Partners involved :</b> GTZ, Governments of Austria, Netherlands, United Kingdom, SIDA, USAID	<b>Closing Date</b>	06/30/2000	06/30/2000

<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
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**2. Project Objectives and Components**

**a. Objectives**

(1) Restart and expand private enterprise activities in Republika Srpska (RS) by making medium-term financing available from commercial banks; and (2) improve the credit management capacity and loan administration skills of RS banks. This emergency credit pilot operation was constructed with modest objectives within the country's framework of state-owned banks, since circumstances and time did not permit awaiting a restructuring of the financial sector before proceeding. However, the objectives of the project were modified during implementation to include technical assistance objectives: (1) improve the safety and soundness of the banking system by providing assistance to build the capacity of the banking supervision agency in RS, the BARS; and (2) to improve the competitiveness and profitability of private enterprises.

**b. Components**

The original components of the project included (1) line of credit (US\$16 million), (2) banker training, (US\$1 million), (3) enterprise support (US\$1 million), (4) banking supervision (US\$1 million), and (5) implementation support (US\$ 1 million). The Bank's financing was originally allocated to the line of credit in the amount of US\$ 4.5 million and implementation support in the amount of US\$ 0.5 million. However, for the credit line, donors provided only US\$ 2.96 million instead of the planned US\$ 11.5 million, so IDA credit was reallocated with US\$4.9 million for the credit line and US\$0.1 for implementation support. Therefore, the credit line financing came to US \$ 7.9 million.

**c. Comments on Project Cost, Financing and Dates**

The project cost US\$11.1 million, financed by the IDA credit for US\$5 million, the Government of Austria, US\$0.5 million; the United Kingdom, US\$1.6 million; the Netherlands, US\$1.0 million; USAID, US\$1 million; SIDA, US\$1 million; and GTZ, US\$ 1 million. The project was appraised in October, 1997, approved by the Board on May 19, 1998, made effective on July 13, 1998, and closed on schedule on June 30, 2000.

**3. Achievement of Relevant Objectives:**

(1) *Credit Line:* 111 sub-loans to 107 enterprises were provided through the four participating banks, for a total of US\$7.9 million, with an average size US\$71,000. Of 111 sub-loans, only four were classified as sub-standard, doubtful, or loss. The low delinquency rate probably reflected both the high quality of investment proposals and sound bank lending practices. With a cofinancing ratio of 1.25:1, the project mobilized an additional US \$10 million in loans for enterprise financing. (2) *Technical assistance:* (i) Participating banks were assisted by strengthening their credit and risk management capacity (which GTZ managed). Each bank stated that as a result of this assistance, it had strengthened loss identification capacity and provisioning, tightened up loan collection procedures, and introduced external IAS audit. (ii) Banking system supervision was enhanced (USAID managed); supervision was strengthened through passage of a comprehensive banking law; and BARS issued and implemented new, stricter prudential regulations aligned with the Basle Committee's Core Principles for Effective Bank Supervision. Basic and advanced bank supervision training courses have been conducted for examiners. Full-scope on-site examinations

have been completed for all banks, and a bank rating system and operational manual have been instituted . (iii) Enterprises were assisted in business planning (SIDA managed this component), and 12 seminars were held for 120 entrepreneurs, which received some mixed but on the whole favorable comments from participants . (iv) Assistance to the PCU enabled it to operate an effective, computerized, integrated credit management system that incorporated tracking systems for sub-loan and subsidiary loan disbursements and repayments .

**4. Significant Outcomes/Impacts:**

1. The project helped restart private sector production and substantially strengthened both the participating banks and banking sector as a whole . 2. Exports in about half of enterprises financed under the credit were expected to increase. 3. A survey of 11 sample projects showed that these projects were expected to generate 1,500 jobs at a cost of about US\$10,800 invested per job. If this survey reflects the project as a whole, the project may have provided employment for about 15,000.

**5. Significant Shortcomings (including non-compliance with safeguard policies):**

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome :</b>	Satisfactory	Satisfactory	
<b>Institutional Dev .:</b>	Modest	Modest	Although the banking sector was substantially strengthened, among other substantial improvements, the situation remains fragile with many problems remaining before privatization of the banks can be implemented. Therefore, on balance, a rating of "modest" rather than "substantial" is appropriate.
<b>Sustainability :</b>	Likely	Likely	
<b>Bank Performance :</b>	Satisfactory	Satisfactory	
<b>Borrower Perf .:</b>	Highly Satisfactory	Highly Satisfactory	
<b>Quality of ICR :</b>		Exemplary	

**NOTE:** ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

**7. Lessons of Broad Applicability:**

1. This project had several features which worked well and are a good basis for other projects : (a) Even in emergency situations, it is important for credit-line operations to allow banks to take credit risks, rather than have the banks act as an implementing agency, (b) Institutional autonomy is important for Project Coordination Units . 2. One aspect of the project which could have worked better was the technical assistance for enterprise support . This support might have been made even more relevant than it was if it had been institutionalized and delivered with some cost-recovery features to promote incentives to make the material as relevant as possible for entrepreneurs .

**8. Assessment Recommended?**  Yes  No

**9. Comments on Quality of ICR:**

The ICR contains a great deal of carefully prepared material . It is based not only on interviews but also field surveys of enterprises and banks . The ICR presents prudent judgements and evaluations based on this unusually rich background material. The lessons learned are thoughtful and present clear messages for future projects . The Partner's comments are unusually thoughtful and detailed, (evidently reflecting the Borrower's interest in the project).