ICR Review
Operations Evaluation Department

Report Number : ICRR10818

1. Project Data:		Date Posted :	02/08/2001	
PROJ ID :	P045311		Appraisal	Actual
Project Name :	Local Initiatives	Project Costs (US$M)	18.00	21.74
Country :	Bosnia-Herzegovina	Loan/Credit (US$M)	7.00	6.69
Sector(s):	Other Social Protection	Cofinancing (US$M)	11.00	15.05
L/C Number :	CN002			
		Board Approval (FY)		97
Partners involved :	Netherlands, Austria, Japan, Switzerland, Italy	Closing Date	06/30/1999	06/30/2000
Prepared by :	Reviewed by :	Group Manager :	Group :	

2. Project Objectives and Components

a. Objectives

To help economically disadvantages and war-affected groups in Bosnia and Herzegovina to restart economic activities and to make the transition from dependence on humanitarian assistance to active employment

b. Components

(a) to provide access to credit to the economically-disadvantaged and war-affected, specifically low-income microentrepreneurs who have no access to credit from the commercial banking sector; (b) to facilitate the development of independent, financially viable microfinance institutions that will continue to provide credit to low income entrepreneurs over the long term; and (c) support the Local Initiatives Department (LID) to create an appropriate legal and regulatory environment for the provision of credit and savings services to low income entrepreneurs.

c. Comments on Project Cost, Financing and Dates

The project cost US$ 21.75 million, financed by an IDA credit (funded through the Interim Trust Fund) of US$6.69 million, and funding from the Netherlands, Austria, Japan, Switzerland, and Italy for US$ 15.05 million. The project was appraised in July, 1996, approved by the Board on December 13, 1996, made effective on March 11, 1997, and closed on June 30, 2000, one year behind schedule.

3. Achievement of Relevant Objectives:

(a) as of June, 2000, 50,261 loans has been disbursed to the target population (well in excess of the original target of 10,000 loans) for a total value of US$67 million equivalent. As of June 30, 2000, the number of active clients was 19, 361 with about US17.5 million in loans outstanding. About 21 percent of recipients were internally-displaced persons forced to leave their homes during ethnic cleansing, and 5 percent are returnees. Forty nine percent of borrowers were women. A typical client business is family run and employs 1 to 5 people. Repayment rates are extremely high. The Portfolio at Risk ratio (PAR) is only 0.66 percent (the ratio of unpaid loans with late payments compared to the unpaid balance of all loans). The average loan size was US$1,450. Seventy-nine percent of all borrowers felt that the loan had significantly improved their economic situation . (b) The nine MFIs which were the focus of the project following the revision of objectives have achieved a great deal . After only three years of operation, seven had become operationally sustainable (able to cover operating expenses from operating revenues) and four of the institutions were financially viable (they could cover all expenses). The nine MFIs had received an average subsidy of US$320,000 but today all MFIs cover their own operating costs and do not receive subsidies. Today, the MFIs have between 1,000 and 4,000 clients each. (c) Work on creating a legal and regulatory framework is quite advanced. A proposal for four kinds of financial institutions has been prepared (microcredit organizations which would be non-profit, credit only institutions, finance companies, savings and credit associations, and microfinance institutions which would be a specialized microfinance bank authorized to accept deposits from the general public). Since new legal authority was required for the microcredit organizations, a Law on Microcredit Organizations has been made effective in the Federation, while in Republic Srpska a largely identical law has been approved by the Government and is awaiting approval by the Entity Parliament .

4. Significant Outcomes/Impacts:

The microfinance sector has become an important vehicle for promoting economic development among the very small scale trade/enterprise sector at a modest cost. Although subsidies were required to defray start-up costs and earlier operations, after three years the sector is now operating on a self-sustaining basis. Capacity is being increased based on training materials and courses supported by the project. The legal/regulatory framework has been improved to sustain further growth.

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

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Highly Satisfactory	Highly Satisfactory	
Institutional Dev.:	High	High	
Sustainability:	Highly Likely	Likely	Three of the nine MFIs participating in the project have low financial self-sufficiency ratings (49%, 75%, and 75%) and negative returns on equity and assets, although their portfolio ratings are generally good and there are indications that with more experience the low financial self-sufficiency ratings will improve. However, these MFIs accounted for 43% of all active clients being serviced through this project. Although many of the project's benefits do seem resilient, a sustainability rating of "likely" rather than "highly likely" is on balance more appropriate. Since the project exceeded its lending objective five-fold, the other ICR ratings are considered warranted even if some shortfalls were to emerge in the future.
Bank Performance:	Highly Satisfactory	Highly Satisfactory	
Borrower Perf.:	Satisfactory	Satisfactory	
Quality of ICR:		Satisfactory	

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

7. Lessons of Broad Applicability:

Targeting the microfinance sector with a modest amount of well-directed financing and working with select NGOs can have a strong impact on economic activity. It is important to focus on institutional development in order to sustain the benefits on microfinance operations.

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

The ICR is very clearly written and presents a great deal of relevant information. Additional information allowing the reader to have a clearer idea of the impact of the operation in terms of the economy would have been useful to better assess whether the scale of the project was appropriate, but this might have required information on investment and GDP which might not be readily available.