Report Number : ICRR0020731

1. Project Data

Project ID	Project Name	
P116080	EXPORT FIL	
Country	**Practice Area(Lead)**	**Additional Financing**
Croatia	Finance & Markets	P129220

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IBRD-77740,IBRD-81930	31-Aug-2013	141,220,000.00
Bank Approval Date	**Closing Date (Actual)**	
04-Aug-2009	31-Aug-2016	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	141,220,000.00	0.00
Revised Commitment	202,462,744.27	0.00
Actual	188,065,989.33	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

According to the Loan Agreement (p. 6), the project’s development objective is "to support the preservation and growth of exports by providing medium and long-term working capital and investment finance to exporters and foreign exchange earning enterprises".

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

This was a single component project consisting of a credit line to the Croatian Bank for Reconstruction and Development (HBOR) as the Borrower and implementing agency. HBOR was to wholesale the funds to private banking institutions (Participating Financial Intermediaries or PFIs), which in turn on-lent to eligible private exporters and quasi-exporters such as the tourism and logistics sector. The HBOR’s credit division had the following responsibilities: (i) on-lending to PFIs for final lending to sub-borrowers; (ii) ensure effective functioning of the on-lending facility to final borrowers through PFIs; (iii) on-going monitoring of the PFIs to ensure compliance with project criteria; (iv) responsibility for adherence to all fiduciary and safeguard requirements of the World Bank for final sub-borrowers; and (v) monitoring and evaluation based on key project development indicators.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Cost: Actual cost of the project amounted to US$188.1 million, or 92.8 percent of the approved amount.
Financing: The project was funded by an initial IBRD Loan in the amount of US$141.2 million equivalent at approval, with additional financing (AF) of US$61.4 million equivalent at restructuring, totaling US$202.6 million equivalent. An undisbursed amount of US$14.5 million was cancelled at project closure.
Borrower: There was no contribution from the Borrower.
Dates: The closing date of the original loan was extended three years until August 31, 2016 (when the project closed) to match the closing dates of the AF.

3. Relevance of Objectives & Design

a. Relevance of Objectives

The project design was consistent with the strategic priorities of Croatia. The Bank responded to a request from the Croatian government, which asked for quick assistance to the financial sector during the period of the 2008 global financial crisis to counter the negative effects on the Croatian economy. The project aimed to support exporters through providing medium to long-term funding during the crisis to enable beneficiaries to step up their export and stabilize or increase their employment levels. Moreover,the project was aligned with the FY09–12 Country Partnership Strategy (CPS) at the time of appraisal, which had a pillar devoted to promoting private sector-led growth as a key priority to achieve convergence the EU27 per capita income levels. Achieving the EU convergence, and tap the benefits from the European economic integration remained a key pillar of the subsequent CPS for FY2013-17. As the project was supportive to country's priorities, and was in line with successive Bank 's strategies in Croatia, the relevance of objectives is rated as high.

Rating

High

b. Relevance of Design

The project objective was clearly stated and aimed to support the preservation and growth of exports through medium to long-term finance to exporters and foreign exchange earning enterprises. The single component of the project consisted of a credit line to the Croatian Bank for Reconstruction and Development (HBOR) to be on-lent to PFIs, which in their turn were to lend to exporting firms. The project used wholesale and retail models to deliver loans to beneficiary exporters. The original loan and additional finance adopted a wholesale structure where PFIs (commercial banks) were on-lending to exporters. After the 2015 restructuring, HBOR lent directly to exporters following the low risk appetite of the commercial lenders. The two co-existing models allowed the project to reach out to a larger group of exporters. The causal chain was logical and strong, as the credit line facilitated lending activity by the banking system to exporting firms by providing the needed resources to fund their working capital. The relevance of design is rated as high..

Rating

High

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

The project's objective is to support the preservation and growth of exports by providing medium and long-term working capital and investment finance to exporters and FX earning enterprises (e.g. tourism, logistics).

Rationale

<u>Outputs:</u>

Volume of medium and long-term lending: The performance target for the medium to long-term finance was met by HBOR and PFIs successfully. Average loan maturity at the end of the project was 63 months and weighted average maturity was 70 months. 8.2 percent of the total loans were investment loans, the rest were disbursed as working capital loans. The project loan's weighted average maturity was higher than the maturity of Euro-denominated working capital loans. The project's average loan maturity was 70 months while Euro-denominated working capital loans had a weighted average maturity of around 52 months. Shorter loan maturity for the PFIs spanned 12-60 months, while other PFIs offered longer maturities between 12 and 288 months. Average maturity for the original loan was 50 months, compared to an average maturity in the additional finance of 124 months.

Non-performing Loans (NPLs): The project's NPLs ratio was 5.1 percent in number and 1.05 percent in volume. This was far superior to the 7 percent target set at appraisal. The NPL numbers generated by the project's operations were competitive, compared to the very high NPL ratios on the market during the

crisis, which reached 17 percent in total, and up to 31 percent for the corporate sector.
Beneficiary firms: Seventy exporters were funded under the project through PFIs and by the HBOR. Seventy-eight loans were extended to finance these 70 borrowers against a target of 60 exporters, exceeding the target. The average loan size was Euro 1.7 million, and most of the loans (62 percent) were in the Euro 1-5 million range.

Outcomes:

Exports growth: Beneficiary companies increased their exports by 18.9 percent collectively, with the total value of exports increasing by Euro 225 million during the project life. The median growth rate was 25 percent. This contrasted with the 3.3 percent average export growth for Croatia between 2008 and 2015. In 2015, the total amount of the exports by project beneficiary exporters represented 12 percent of the county's total exports. The export multiplier (measuring incremental exports of firms divided by total loan amount) was 1.52.

Employment generation and preservation: About 60 percent of the exporting firms created 964 new jobs in total under the project, representing a 4.8 percent employment growth for the beneficiary exporters during the project life. For every Euro 153,000 disbursed to an exporter, 1 job was created. Beneficiary firms that kept the same hiring level throughout the project employed 806 employees. This performance contrasted with the unemployment level that increased sharply to 17 percent during the crisis. Finally, 4 out of 70 firms funded by the credit line have a female owner, with two of them being 100 percent owned by a female, and the other two firms being owned by females at 50 percent.

Additionality and attribution:

The ICR did not discuss the non-project hypothesis, but the swift disbursement of the initial loan and the project scaling-up through an additional financing was a testament that the loan responded to an unmet demand for medium and long-term lending. In this case, the HBOR addressed a market failure and filled a gap not satisfied by private sector commercial banks. The ICR discussed the issue of outcome attribution, by underscoring that the HBOR had borrowed from IFIs between 2008 and 2016 for a total amount of Euro 2.6 billion. The World Bank Loan was predominantly used by HBOR to finance the working capital expenditures of the exporters while HBOR was increasing the investment loan portfolio either from its own sources or from the European Investment Bank (EIB), and this process was more evident during the additional finance phase. Overall, project funds were complementary to other IFI loans by providing long term working capital finance to exporters.

Rating
Substantial

5. Efficiency

Economic and financial efficiency: There was no economic and financial analysis either at appraisal or at project closure. The ICR made an attempt to report on the economic and financial results of the project, but the exercise was a repetition of the description of the project efficacy. However, the project TTL provided additional material shedding light on the approach used to ascertain that financial efficiency was at the core of project design and implementation. The focus of economic analysis and financial for this project focused on minimizing market distortions and on ensuring that financing decisions are market-based, meaning that the lending rate takes into account all costs and risks to avoid interfering with market competition in the functioning of the private commercial banking sector. The provided material indicates that the average interest rate charged to sub-borrowers was sufficiently high to cover the cost of capital of PFIs and non-interest expenses, while ensuring a reasonable profit to PFIs. A similar approach was used in HBOR's lending, and since the average interest rate charged by HBOR to clients was similar to the one charged by PFIs, and that HBOR’s cost of funds from the World Bank was significantly lower, HBOR's loans yielded a greater margin. As indicated in Section 4, the low NPL ratio shows a better financial performance of projects funded by the credit line.
Administrative and operational efficiency: The initial credit line was carefully designed and rapidly disbursed despite a complex institutional setting. The implementing agencies had adequate capacity to manage the project. The Bank team processed the AF and ensured close supervision of the project. The original loan was quickly absorbed, but the additional finance phase was slowed down by a lack of demand from corporates for new loans and high risk aversion by the banks. As a result, the Bank provided intensive implementation support towards the end of the project to speed up disbursement, and this was successful. On the other hand, the introduction of the additional finance phase in an environment with shrinking demand caused some delays in implementation.
On balance, overall efficiency is rated as Substantial

Efficiency Rating
Substantial

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐Not Applicable
ICR Estimate		0	0 ☐Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The relevance of objective, and that of design was high. Efficacy was substantial, as the project objectives were substantially achieved. Efficiency was rated as Substantial. Overall, the project outcome is rated as satisfactory.

a. Outcome Rating
Satisfactory

7. Rationale for Risk to Development Outcome Rating

Recent recovery for the Croatia's economy has been driven by stronger exports, increased tourism activity, and private consumption, including the absorption of EU structural and investment funds. However, the economy remains highly vulnerable due to elevated public and external debt levels, with signs of a slowing in lending to the corporate sector, reflecting an improving country outlook, but with significant risks to further recovery. During project implementation, financial intermediaries complied with project requirements, and by the project closure, there were signs of potential demand from the corporate sector and exporters, especially for medium to long-term funding. The Bank's engagement with Croatia on improving availability of long term finance for private sector investments has been evolving toward ensuring sustainability of development outcome of credit line projects. An ongoing project - Partial Credit Guarantee Project - aims to leverage World Bank funds for greater commercial funding and seems to be a sustainable source of long-term funding for HBOR and Croatian enterprises. Overall, the risk to development toutcome is rated as Modest.

a. Risk to Development Outcome Rating
Modest

8. Assessment of Bank Performance

a. Quality-at-Entry

There was a comprehensive dialogue among the representatives of the Croatian public finance administration, the key stakeholders in the exporter and SME associations, and the financial sector community before the project design and the selection of the lending instrument. The project was complemented by the approval of a Bank's development policy loan and the conduct of analytical studies promoting financial sector development and private-sector led growth, and benefitted from the findings and recommendations of the Croatia's Convergence Report. At the appraisal the Bank incorporated lessons learned from earlier credit line experiences around the world: for instance, the adoption of wholesale structure to disburse the World Bank funds through a wide network of commercial banks helped a range of exporters categories and encouraged competition in the banking sector. However, the leasing sector could have widened the distribution channels and the share of investment loans in the project portfolio. The project's risk assessment framework in the PAD was comprehensive and mitigation measures were adequate. The monitoring and evaluation (M&E) framework focused on the impact of the project, and was improved during the additional finance phase with a revision of indicators and targets for each indicator to better capture the impact of the project. Implementing arrangements were appropriate; although there were many intermediaries, HBOR was entrusted with the key functions of procurement, financial management, M&E, and reporting.

Quality-at-Entry Rating
Satisfactory

b. Quality of supervision
The Bank team conducted multiple supervision missions, which entailed field visits to borrowers, PFIs, and end-beneficiaries, and filed 12 Implementation Status and Results Reports (ISRs). Mission aide-memoires, ISRs, and MTR were timely and provided updated information on country's economic developments and their impact on the project. Bank team accelerated supervision after the restructuring, and coordinated more with the Country Management Unit (CMU). While the original loan was quickly absorbed, due to strong demand from corporates, the additional finance phase coincided with a lack of demand from corporates for new loans and high risk aversion by the banks. Enhanced implementation support and efforts extended by the Bank team towards the end of the project ensured successful disbursement of the funds. On the other hand, the introduction of the additional finance phase in an environment with shrinking demand, and less proactive action to restructure the project caused some delays in implementation.

Quality of Supervision Rating
Satisfactory

Overall Bank Performance Rating
Satisfactory

9. Assessment of Borrower Performance

a. Government Performance
The Government was the loan's guarantor and demonstrated strong commitment to the project's objectives, as illustrated by the completion of a structural reform agenda in the financial sector and several reforms within the scope of a Development Policy Loan focusing on reforming the country's financial sector. The Government and the Central Bank succeeded in keeping the financial sector stable and the banking sector healthy under challenging conditions. Monetary authorities sustained policies supporting financial system stability and addressed liquidity concerns using regulatory requirements and foreign exchange interventions.

Government Performance Rating
Satisfactory

b. Implementing Agency Performance

HBOR effectively staffed the PIU and addressed shortcomings to comply with financial management and procurement procedures, and to ensure good quality reporting. HBOR channeled funds through PFIs and managed reallocations proactively. Implementation delays stemmed from market conditions and low demand for loans, and from slow action when addressing challenges. To speed up disbursement, HBOR increased direct lending, including their disbursement of investment loans from EIB and other sources, while decreasing wholesale lending to financial intermediaries. HBOR committed almost all the funds by the closing date of the project.

Implementing Agency Performance Rating

Satisfactory

Overall Borrower Performance Rating

Satisfactory

10. M&E Design, Implementation, & Utilization

a. M&E Design

The project's Monitoring and Evaluation (M&E) framework was well designed as PDO indicators were in line with the project's objectives and activities, and adequately measured the project's impact. However, there were no indicators to measure investment performance of exporter beneficiaries. Working capital and investment loans were monitored and reported by the PIU. The PAD and the project's operations manuals provided explicit M&E arrangements and clear channels of reporting.

b. M&E Implementation

Some indicators were revised to improve the clarity and to reflect the increased scale of the loan following the additional finance phase, and all indicators in the additional finance documentation were assigned a target. Indicators were effectively monitored during project supervision, as Aide Memoires (AM) and Implementation Status and Results Reports (ISRs) updated information related to project's the results framework.

c. M&E Utilization

The ICR did not provide information related to the M&E utilization during project implementation.

M&E Quality Rating

Substantial

11. Other Issues

a. Safeguards

(i) **Safeguards compliance**:
The project triggered Environmental Assessment (OP/BP 4.01) and the project was classified as FI environmental category, because HBOR was to intermediate the funds through PFIs, which in turn were to on-lend to eligible private and exporters. The project operation manual / EMF define screening procedures for each individual sub-project as part of the project eligibility. Overall, because most of the lending was to firms for working capital purpose, environmental safeguards were applied to only part of the lending portfolio. The ICR did not indicate the extent to which safeguards compliance was achieved. On the other hand, several PFIs and final beneficiaries questioned the onerous safeguards standards of the World Bank, especially for investment loans.

b. Fiduciary Compliance

Financial management: HBOR strength in financial management was based on a well-established Internal Audit Department and experienced staff. The Operational Manual and experienced PIU staff helped ensure the fiduciary compliance. Periodically, the Bank team reviewed the systems established to monitor project implementation and selected samples that would be verified at the branch level. On field visits, World Bank staff met with the HBOR branch managers and officers, reviewed the files and documents of selected beneficiary exporters, and visited their projects. Overall, compliance was positive.
Procurement: Local private sector commercial practices were followed for procurement of goods and works contracts each worth less than €10 million. Procurement capacity at HBOR was satisfactory and the procurement risk at HBOR was rated moderate.

c. Unintended impacts (Positive or Negative)

The ICR did not rport any.

d. Other

The ICR did not report any.

12. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	---
Risk to Development Outcome	Modest	Modest	---
Bank Performance	Satisfactory	Satisfactory	---
Borrower Performance	Satisfactory	Satisfactory	---
Quality of ICR		Substantial	---

Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons

The ICR section devoted to lessons learned comprised mostly recommendations and findings. The key lesson from the implementation of this project is that a wholesale model seems to be preferable to a retail lending model. Thus, a wider range of financial intermediaries increases the number and diversity of potential project beneficiaries, enables new financial intermediaries to gain experience in working with international organizations, and encourages healthy competition.

14. Assessment Recommended?

No

15. Comments on Quality of ICR

The ICR is well written and consistent throughout, but could have been shortened (31 pages against 15 suggested by OPCS). Moreover, key efficacy issues needed more specific detail including annexes providing data on the features of the final users of the credit line. The lessons learned are sound, and were derived from project implementation experience. Aspects that needed more depth include the following: (i) efficiency needed to be researched further to illustrate the value of money of the credit line, and (ii) fiduciary compliance and relevance of design needed more discussion in order to be in line with of OPCS guidelines.

a. Quality of ICR Rating
Substantial