



<b>1. Project Data:</b>		<b>Date Posted :</b> 01/28/2005	
<b>PROJ ID:</b> P008839		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Enterprise Support	<b>Project Costs (US\$M)</b>	300	63.5
<b>Country:</b> Russian Federation	<b>Loan/Credit (US\$M)</b>	200	49.7
<b>Sector(s):</b> Board: PSD - General industry and trade sector (100%)	<b>Cofinancing (US\$M)</b>	100	13.8
<b>L/C Number:</b> L3763			
	<b>Board Approval (FY)</b>		95
<b>Partners involved :</b>	<b>Closing Date</b>	06/30/2000	12/31/2003

<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**

Objectives of the Enterprise Support Project (ESP) were to: (a) Provide presently-unavailable market-based, medium-term finance to private enterprises for incremental capital investment and permanent working capital ; (b) assist a core group of commercial banks in initiating term lending to private enterprises .

**b. Components**

The project had a single component: providing term finance to new private and newly privatized enterprises .

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

The original IBRD loan was US\$200 million, with supplemental co-financing of US\$100 million by EBRD. Due to delays in approving Participating Banks (PBs) and the 1998 financial crisis, disbursements were much lower than expected; US\$50 million was canceled in February, 2002, and an additional US\$30 million canceled in mid 2003. Final expenditures amounted to US\$63.5 million, 31.8% of the original loan amount, or 52.9% of the reduced final loan amount. Although the EDP was a stand-alone project, it was implemented in parallel with the Financial Institutions Development Project, which aimed to accredit and strengthen the banks through which the EDP sub-loans were channelled.

**3. Achievement of Relevant Objectives:**

Russia experienced a huge financial crisis in 1998, 4 years after project inception, followed by an 80% devaluation of the ruble. At the time of the crisis, 62 sub-loans in the amount of US\$126.5 million across a broad variety of sectors had been obligated. The crisis caused cancellation of 19 of these sub-loan commitments, and also prompted the MOF to suspend new commitments. The ICR reports that "most" of the remaining 43 loans continued to be "serviced on time," without defining those terms.

After the 1998 crisis, the project was restructured: EBRD discontinued its participation; the number of participating banks was reduced from 23 to 3; loan criteria were tightened; and project administration improved. By March, 2003, however, only an additional US\$11.8 million had been disbursed, despite the participation of a number of new banks. The ICR states that, *in toto*, EDP approved 62 sub-loans, of which 3 loans were classified as "loss" and 3 as "watch," using "international standards based on debt service history and borrower financial performance."

Outcome with regard to both objectives was *unsatisfactory*. With regard to objective (a), providing enterprise financing, the project was *unsatisfactory* as the scale of the financing provided was substantially below what was envisioned (31.8%), despite the restructuring of the project and the relatively stable macroeconomic circumstances after 1998. While the ICR describes repayment performance as good --especially considering the extremely turbulent environment--insufficient evidence is presented to validate this claim. (The reasons for the lack of use of the credit line are discussed in sec. 5)

Regarding objective (b), assisting commercial banks in lending to private enterprises, while significant progress may have been made in strengthening loan appraisal capacity among PBs, as stated by the ICR, the de-accreditation of 20 of 23 PBs cannot be seen as evidence of satisfactory achievement (even if several additional banks were

accredited after the crisis). Consequently, achievement in this area was also *unsatisfactory*.

**4. Significant Outcomes/Impacts:**

none

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

- Project design was unsatisfactory :
  - The original loan, made as a "currency pool loan," caused the transaction cost to PBs to be higher until it was changed to a single currency loan in 1996
  - The willingness of enterprises to take term loans in a foreign currency in an unstable and inflationary environment was much less than envisioned
  - The procurement practices for sub-borrowers originally specified under the loan were unduly burdensome (until they were modified in 1996)
- MOF accreditation of PBs and signing of Sub-loan Agreements was slow, both at project inception as well as following the post-crisis restructuring
- After the 1998 restructuring, the MOF imposed burdensome collateral requirements on PBs lending under ESP
- Just 32% of the original loan amount was ultimately disbursed to enterprises
- Of 23 participating banks, 20 were de-accredited after the 1998 crisis

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome :</b>	Unsatisfactory	Unsatisfactory	
<b>Institutional Dev .:</b>	Modest	Modest	
<b>Sustainability :</b>	Unlikely	Unlikely	
<b>Bank Performance :</b>	Unsatisfactory	Unsatisfactory	Given the ESP's poor performance, project ratings of "satisfactory" on DO and IP during the period 2000-2003 appear unwarranted, as do the decisions to extend the project.
<b>Borrower Perf .:</b>	Unsatisfactory	Unsatisfactory	The Borrower hindered project progress by its: poor macroeconomic policy; insufficient commitment to the project; lack of willingness to pursue banking sector reform; slow pace of signing sub-loan agreements; burdensome collateral requirements.
<b>Quality of ICR :</b>		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:**

- The success of enterprise finance operations such as the ESP is dependent on a stable macroeconomic environment, stable financial sector, and effective bank regulation, which were not present in this case .
- Sub-loans under the project were not well-designed in terms of beneficiary needs; sub-loans made in US dollars introduced additional risk to sub-borrowers and PBs.
- A competent PIU was critical to minimizing losses. Swift action by the PIU during and after the crisis--e.g., confirming the viability of sub-loans or recommending suspension/recovery--minimized project losses.
- Better quality data should have been collected on repayment rates, impact of sub-loans, and other key indicators of project performance.

**8. Assessment Recommended?** ● Yes ○ No

**Why?** It would be useful to examine the Bank's decisions to extend the project given the deficiencies in Bank and Borrower performance noted in sec. 6. The ICR notes that macroeconomic hardships in the aftermath of the 1998 crisis brought the project to a halt.

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

The ICR is satisfactory. It is frank in its description of events under the EDP and accurate in rating the project . However, in presenting evidence of achievement, the ICR in many cases does not present definitions of the terms used, quantitative evidence, or the context or interval in which the achievement is said to have taken place :

- "most of the remaining 43 sub-loans.....continued to be serviced on schedule "
- Of 62 sub-loans, only 3 were classified as "loss" and 3 as "watch."
- "Companies agreeing to disclose tax data indicated that their average annual tax payment practically doubled ."

Also, some of the information in the ICR and much of the information in the Annexes is either missing or inconsistent with the text: Sustainability rated as "L," or likely, when in fact a rating of unlike was intended (information received from the region); Annex 4b, missing; Annex 5, inconsistent (e.g., "Macro polices, NA," Bank Performance,

["Satisfactory"); Annex 6, inconsistent.

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