Report Number: ICRR0024214

1. Project Data

Project ID P165147	**Project Name** Financial Sector Strengthening Project	
Country Kosovo	**Practice Area(Lead)** Finance, Competitiveness and Innovation	
L/C/TF Number(s) IDA-64160	**Closing Date (Original)** 31-Dec-2023	**Total Project Cost (USD)** 26,769,051.70
Bank Approval Date 14-May-2019	**Closing Date (Actual)** 31-Dec-2023	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	25,000,000.00	0.00
Revised Commitment	25,000,000.00	0.00
Actual	26,769,051.70	0.00

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

a. Objectives

According to the Project Appraisal Document (PAD) (page 16) and the Financing Agreement (page 4), the project development objective (PDO) of the Kosovo Financial Sector Strengthening Project was to improve access to finance for micro, small, and medium enterprises (MSMEs) by strengthening the financial and technical capacity of the Kosovo Credit Guarantee Fund (KCGF). The KCGF was established in 2016 to issue portfolio loan guarantees to financial institutions to cover up to 50 percent of the risk of loans to MSMEs.

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

No

c. Will a split evaluation be undertaken?

No

d. Components

The project had two components.

Enhancing the Credit Guarantee Framework (Euro [EUR] 21.4 million estimated at appraisal, EUR 21.4 million disbursed by closing) supported: (a) the expansion of the capital base for the general window of the KCGF by EUR 17.7 million (the leverage ratio would be maintained at 2.5:1); and (b) the creation of a new window at the KCGF to provide partial credit guarantees to underserved and strategic businesses that were important for sustainable economic growth, including start-ups, young enterprises, and women businesses, and the capitalization of this new window by EUR 3.7 million (the leverage ratio would be maintained at 1.5:1). Separately, a temporary Economic Recovery Package window was opened at the KCGF during project implementation in December 2020 -- part of the Government's Economic Recovery Program (from the COVID-19 pandemic) -- and was partly capitalized by the project funds allocated for this project component (the project was not restructured for this purpose).

Project Implementation and Institutional Strengthening of the KCGF (EUR 0.9 million estimated at appraisal, EUR 0.45 million disbursed by closing) supported the institutional strengthening of the KCGF in eight areas: (a) project implementation; (b) information technology (IT); (c) risk assessment policies and procedures; (d) internal control and financial reporting; (e) monitoring and evaluation, including of environmental and social safeguards; (d) design and development of new financial products for MSMEs; (e) marketing and communications strategy; and (f) the training of loan officers.

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

Project Cost and Financing. The project was estimated to cost EUR 22.3 million (US$25 million equivalent) at appraisal. The project was financed by a credit from the International Development Association (IDA) to the Republic of Kosovo for EUR 22.3 million (US$25 million equivalent). EUR 21.85 million of the IDA credit (98 percent) was disbursed -- the allocation of EUR 21.4 million for the first project component was frontloaded and disbursed in a single tranche in December 2020 three months following project effectiveness in September 2020, prompted by the COVID-19 pandemic and the resulting economic and financial downturn. The undisbursed amount for the second project component and changes in the US$/EUR exchange rate account for the difference between the final disbursed amount in US$ term, at US$26.8 million, and that estimated at appraisal, at US$25 million.

Borrower Contribution. There was no financial contribution to the project from the Government.

Dates. The project was approved on May 14, 2019, became effective on September 21, 2020, and closed as scheduled on December 31, 2023.

3. Relevance of Objectives

Rationale

Binding Constraint to Development. This project aimed to address a critical constraint faced by MSMEs -- limited and difficult access to finance. According to the *Republic of Kosovo Systematic Country Diagnostic Update* (World Bank, 2022*)* and related reports: (a) MSMEs dominated the private sector in Kosovo, accounting for more than 97 percent of all formal firms in the economy and 65 percent of total employment, according to *Jobs Diagnostic - Kosovo* (World Bank, 2017); (b) but MSMEs faced a poor access to finance -- 33 percent of MSMEs were financially constrained, with the MSME financial gap (the difference between the amount of finance that MSMEs need and the amount of finance that is available to them) estimated at EUR 342 million in 2017, around 5 percent of GDP (World Bank and International Finance Corporation, 2017, *MSME Financing Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets*); (c) financial intermediation, by a financial system dominated by foreign banks, remained low, with credit to the private sector at 39.6 percent of GDP (modest relative to the country's income level); (d) MSMEs, in particular, faced high collateral requirements and risk-averse lending practices by commercial banks, which preferred lending to large enterprises, relied on non-interest income, and maintained high interest rate spreads; (e) the KCGF was created in 2016 to backstop lending to MSMEs which had little credit history or lacked collateral, thereby expanding lending by banks to MSMEs; (f) the KCGF had provided guarantees to loans totaling EUR 87.1 million by 2018 (1.3 percent of GDP in 2018), and demand for partial credit guarantees was expected to grow, but the institution's capital base, which had grown from EUR 8.6 million in 2016 to EUR 15 million by 2018, was inadequate to meet the expected demand.

Traditional Credit Line versus Partial Credit Guarantees. To expand access to finance for MSMEs, the World Bank considered using a traditional credit line approach under which long-term loans to financial intermediaries would be on-lent by the financial intermediaries to MSME sub-borrowers. A EUR 22.1 million IDA credit to Kosovo (the amount provided by this operation) would provide loan financing of EUR 22.1 million to MSMEs, in at least the first round of on-lending by financial intermediaries. Alternatively, a partial credit guarantee scheme, capitalized at EUR 22.1 million, and using a guarantee coverage limit of 50 percent and a maximum leverage ratio of 5:1, would provide loan financing of around EUR 200 million to MSMEs.

Country Development Priorities. The project objective to improve access to finance for MSMEs by strengthening the financial and technical capacity of the KCGF was consistent with the country's development priorities at project appraisal. The *Republic of Kosovo National Development Strategy 2016-2021* (NDS) articulated four thematic pillars: Human Capital, the Rule of Law and Good Governance, Development of Competitive Industries, and Development of Infrastructure. The project objective was consistent with the third pillar, specifically with the NDS objective to "increase access to finance for SMEs.

Bank Group Country Strategy. The project objective was also aligned with the Bank Group country strategy for Kosovo at project closing. The *Country Partnership Framework for the Republic of Kosovo for the Period FY23-FY27* (CPF) committed Bank Group support for the country's development priorities organized around three high-level outcomes: Greater Public Service Efficiency and Quality, More Formal Private Sector Jobs, and Increased Environmental Resilience. The project objective was aligned with the second high-level outcome, specifically with "CFP Objective 2.1 - To enhance business climate and access to finance" and "CPF Objective 2.2 - To remove barriers to the economic empowerment of women and the youth."

Overall, the PDO was pitched at an appropriate level of ambition and well aligned with the Bank and country strategy.

Rating
High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective
To improve access to finance for MSMEs by strengthening the financial and technical capacity of the Kosovo Credit Guarantee Fund.

Rationale
Theory of Change. To help credit-constrained MSMEs to enhance their access to finance from the formal financial system -- commercial banks and microfinance institutions -- the project would strengthen the financial and technical capacity of the KCGF to issue more partial credit guarantees to MSMEs by injecting new capital into the institution and helping the institution develop new financial products and improve its management systems. The achievement of the objective to improve MSME access to finance would be evidenced by a greater number and a greater amount of guaranteed loans to MSMEs. The results chain was credible because the partial credit guarantee scheme in Kosovo and the capacity of the KCGF to deliver credit guarantees had been tested, with the KCGF providing guarantees to loans to MSME totaling EUR 87.1 million from 2016 to 2018 (1.3 percent of GDP in 2018). While the KCGF's capital had doubled from EUR 8.6 million in 2016 to EUR 15 million in 2018, it now remained inadequate relative to the rising demand. The project would inject new capital of EUR 21.4 million into the KCGF to enable the institution to not only expand its regular window but to also open new windows serving start-ups, young entrepreneurs, and women businesses. The outbreak of the COVID-19 pandemic and the ensuring economic downturn expanded the KCGF's mandate midway during project implementation to include extending partial credit guarantees to MSMEs that had established credit histories but faced credit constraints due to tightened financial conditions. The underlying soundness of the partial credit guarantee scheme for MSMEs in Kosovo gave credence to the notion that the project would meet this additional dimension to the project objective.

Outputs. The project partially achieved the targets for two and fully achieved the targets for six outputs defined for the objective to improve access to finance for MSMEs by strengthening the financial and technical capacity of the Kosovo Credit Guarantee Fund.

- The number of MSMEs receiving guaranteed loans through the project reached 1,953 by December 2023 and to 2,220 by April 2024, exceeding the target of 2,000, after project closing.

- The share of guarantees issued to firms with no credit history remained at 25 percent in December 2023, as it was in December 2018, partially meeting the target of 30 percent. According to the ICR, the result was diluted by the large number of MSMEs needing and receiving credit guarantees following the outbreak of the COVID-19 pandemic -- the KCGF issued the highest number of credit guarantees in its history in 2021, in response to tightened financial conditions following the pandemic, including to MSMEs which already had a credit history.
- The share of the number of guarantees issued to women owned or managed MSMEs reached 18 percent by December 2023 and 19 percent by April 2024, exceeding the target of 5 percent. The share of the amount of guarantees issued to women owned or managed MSMEs reached 16 percent by April 2024 (there were no targets set for this output indicator). The KCGF launched the permanent windows for women in business and startups in 2023. Earlier, women in business and startups were served by the temporary Economic Recovery Program window which opened and operated in 2021 in response to the pandemic.
- The ratio of outstanding guarantees to equity stood at 1.71 percent in December 2023 and 1.9 percent in April 2024, meeting the target that the ratio remains below 2.5 percent. The achievement meant that the financial quality of credit guarantees issued was maintained at satisfactory levels -- the KCGF left room for further growth in guarantees while maintaining a cautious position with the leverage ratio remaining less than 2.5 percent.
- The proportion of guarantee claims paid out stood at 0.44 percent in December 2023 and 0.28 percent in April 2024, meeting the target that the ratio remains under 5 percent.
- The percentage of beneficiaries that felt that the project activities reflected their needs (a citizen engagement indicator involving partner financial institutions and MSMEs and pertaining to the KCGF products) reached 71 percent by December 2023, partially achieving the target of 75 percent (the data was obtained from a KCGF survey).
- The procurement, financial management, and environmental monitoring functions at the KCGF were in place by December 2023, meeting the target that procurement, financial management, and environmental specialists be hired. The ICR added that: (a) the KCGF improved its IT infrastructure, modified its systems to accommodate new credit guarantee modules, and enhanced its ability to prepare International Financial Reporting Standards (IFRS) financial statements; and (b) partner financial institutions established environmental and social management systems (ESMS) to continually identify, assess, manage, and monitor environmental and social risks and impacts of projects financed by their portfolios.
- The number of loan officers trained by the KCGF (i.e., on KCGF products and on ESMS) was 1,538 by December 2023, exceeding the target of 600.

Outcomes. The project partially achieved the target for one and fully achieved the target the other of two outcomes defined for the objective to improve access to finance for MSMEs by strengthening the financial and technical capacity of the Kosovo Credit Guarantee Fund.

- The total amount of guaranteed loans through the project reached EUR 121.3 million by December 2023 and EUR 141.6 million by April 2024, exceeding the target of EUR 130 million, after project closing. Of the EUR 141.6 million of guaranteed loans by April 2024: (a) EUR 51.6 million were guaranteed loans under the regular window; (b) EUR 84.7, under the Economic Recovery Package window (2021); (c) EUR 1.9 million, under the new Start-Up window (2023-2024); and (d) EUR 3.4 million, under the new Women in Business window (2023-2024).
- The number of guaranteed loans was 2,279 by December 2023 and 2,632 by April 2024, partially meeting the target of 3,700 loans, after project closing. Of the 2,632 guaranteed loans by April 2024:

(a) 859 were guaranteed loans under the regular window; (b) 1,573, under the Economic Recovery Package window (2021); (c) 66, under the new Start-Up window (2023-2024); and (d) 134, under the new Women in Business window (2023-2024). The ICR adds that as the KCGF continues to successfully operate and enhance its guarantee operations, the target for the number of guaranteed loans will be achieved soon.

Rating
Substantial

OVERALL EFFICACY

Rationale
The overall efficacy of the project is rated substantial. While the project exceeded the target for the volume of guaranteed loans, it fell short of achieving the target for the number of guaranteed loans. The ICR notes the increased likelihood of meeting the target for the number of loans as KCGF continues to successfully operate and enhance its guarantee operations.

Overall Efficacy Rating

Substantial

5. Efficiency

Economic Efficiency. The PAD calculated a positive net present value (NPV) for the project of EUR 100 million, suggesting a profitable investment. The *ex-ante* analysis assumed that: (a) the EUR 21.4 million of additional capital for the KCGF would be used to provide partial credit guarantees to around 3,700 firms; (b) on a 2.5:1 leverage ratio for the guarantee portfolio, the average loan size to MSMEs would be around EUR 35,000; and (c) the partial credit guarantee coverage ratio would be set at 50 percent. The total amount of loans provided by partner financial institutions to MSMEs would reach EUR 130 million over four years, the NPV of which would be EUR 100 million, using a 10 percent annual discount rate.

The ICR did not present a similar *ex-post* NPV analysis. Rather, the ICR cited the economic benefits accruing to MSMEs from the project, based on an "impact study" conducted the World Bank using Tax Authority, Central Bank, and KCGF data. The study found that MSMEs supported by partial credit guarantees from the KCGF: (a) increased their turnover -- by about 10 percent greater than the comparison group of MSMEs that were not served by the KCGF; (b) became more productive -- by 5.8 percent; (c) expanded employment -- by 2.8 percent (i.e., the project created 3,600 new jobs); (d) were less likely to stop operations -- by about 5 percent; but (e) grew only modestly than before the project.

Operational Efficiency. The project funds were fully disbursed, with the EUR 21.4 million capitalization of the KCGF general and new windows frontloaded and disbursed three months after project effectiveness (see

Section 2.E). The project was completed by the closing date, although project effectiveness was delayed by a year (Parliament was dissolved in August 2019, which delayed Parliamentary ratification of the Financing Agreement, and a vote of no confidence in the Government installed in February 2020 led to the formation of a new Government in June 2020, delaying project effectiveness further).

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 objectives is rated high, efficacy, substantial, and efficiency, substantial. The outcome of the project is rated satisfactory.

a. Outcome Rating

Satisfactory

7. Risk to Development Outcome

The risks to the development outcomes achieved by this project are low to moderate.

The institutional risk is low to moderate: (a) the KCGF is an independent institution protected by a robust legal framework (Law No. 05/L-507 of 2016 as amended in 2021); (b) the institution is technically capable, having received extensive technical and capacity building assistance since its creation from international development partners, including USAID, KfW, and SIDA; (c) apart from the capital injection of EUR21.4 million from the proceeds of this IDA credit, the KCGF received an additional equity contribution of EUR40 million from the proceeds of an EIB loan to Kosovo in June 2021 (see Section 8); (d) the international development partners have seats in the Board and are part of the corporate governance structure; and (e) the KCGF has a history of successful implementation of partial credit guarantee operations, providing guarantees to loans totaling EUR87.1 million and helping create over 3,500 jobs through end-2018.

Because the KCGF stands as a dependable and professionally managed institution, it is unlikely that the capital of the institution will be eroded. The recent capital injections into the KCGF are expected to remain permanent, allowing the institution to continue with partial credit guarantee operations benefitting MSMEs.

The macroeconomic and fiscal sector risks to continued credit guarantee operations are low to moderate in the near to medium term. Economic growth in Kosovo is projected to stabilize at around 4 percent in the medium term, supported by increasing real incomes and higher investment, according to the *Macro Poverty Outlook for Europe and Central Asia* (World Bank, April 2024). Meanwhile, the banking system remains sound, with banks well capitalized with ample provision coverage, highly liquid, and profitable, according to the *Republic of Kosovo Second Reviews under the Stand-by Arrangement and the Arrangement under the Resilience and Sustainability Facility* (International Monetary Fund, June 2024). Non-performing loans remain low and real credit growth has been robust.

8. Assessment of Bank Performance

a. Quality-at-Entry

Analytical Foundations. The design of the project conformed with the *Principles for Public Credit Guarantee Schemes for SMEs* (World Bank and FIRST Initiative, 2015), which set the standards for the design, implementation, and evaluation of public credit guarantee schemes supported by the World Bank and other development partners globally. The standards covered the legal and regulatory, corporate governance, risk management, operational, monitoring and evaluation aspects of public credit guarantee schemes directed at SMEs. Other analytical work that informed the design of the project included: (a) *Jobs Diagnostic - Kosovo* (World Bank, 2017); (b) *Republic of Kosovo Enterprise Survey* (World Bank and International Finance Corporation, 2013); and (c) *MSME Financing Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets (*World Bank and International Finance Corporation, 2017).

Lessons Learned from Similar Operations. The project design adopted the "combined long-term funding and institutional strengthening services" strategy used in similar credit guarantee operations supported by the World Bank, including in Croatia, Lao PDR, Sri Lanka, Jordan, Ghana, and the Eastern Caribbean Currency Union, according to the PAD. Moreover, following the conclusion of the preceding Kosovo Financial Sector Technical Assistance Project and its extension, the Kosovo Financial Sector Strengthening and Market Infrastructure Project, in 2014, the World Bank conducted a diagnostic assessment of the KCGF to determine the agency's internal capacity to implement the proposed expansion of the public credit guarantee program in Kosovo.

Implementation Arrangements. The World Bank required implementation arrangements that were adequate to ensure the effective implementation of the project: (a) the Ministry of Finance would enter into a Subsidiary Agreement with the KCGF to make the project funds available to the KCGF and to facilitate the implementation of the project; (b) the KCGF would enter into Partial Credit Guarantee Agreements with partner financial institutions, with the charges for the partial credit guarantee commitments set in accordance with the KCGF legislation and with partner financial institution credits made subject to terms and conditions satisfactory to KCGF; and (c) the KCGF would adopt a Project Operations Manual, acceptable to the World Bank, that, among others, set the terms of guarantees provided by the KCGF to partner financial institutions, the eligibility criteria and selection procedures for partner financial institutions, the selection of eligible MSMEs, and the terms for partial credit guarantees provided by partner financial institutions to MSMEs.

Collaboration with Development Partners. The World Bank worked closely with the U.S. Agency for International Development (USAID), the *Kreditanstalt fur Wiederaufbau* (KfW), and the Swedish International Development Cooperation Agency (SIDA) -- three international development partners with seats at the Board of the KCGF, albeit on an observer status -- to coordinate their developmental assistance to the KCGF, identify project complementarities, and prevent the duplication of their operations. The USAID helped establish the KGCF in 2016 and funded current expenditures until 2018, the KfW extended capital and technical assistance to the KCGF, while the SIDA provided a secondary guarantee to the institution (SIDA's "re-guarantee" covered 50 percent of KCGF's losses while KCGF, in turn, covered 50 percent of partner banks' eventual losses). The World Bank also coordinated its project design efforts with the International Finance Corporation, which worked with private banks in Kosovo to complement the partial credit guarantee schemes of the KCGF.

Operational Risk and Mitigation Measures. The World Bank assessed the overall project risk to be substantial and offered credible mitigation measures for most risk categories. Political risk was considered high. Any prolonged political uncertainty, like the one that struck after the 2017 elections, could delay the project effectiveness date. Governance risk was also considered high. Project activities to enhance the institutional capacity of the KCGF would address this risk. However, frequent political changes could affect the representation of the Ministry of Finance and the Ministry of Trade and Industry at the Board of the KCGF, rendering the KCGF prone to external interference. The robust legal statue upholding the independence of KCGF and the donor presence in the Board of the KCGF would mitigate this risk. Fiduciary risk was rated substantial. Although the procurement activities and financial management functions envisaged in the project design were simple, rudimentary systems and the KCGF's limited experience with World Bank procurement and financial management procedures elevated the project fiduciary risk. The World Bank would provide implementation support to the KCGF to mitigate this risk.

Quality-at-Entry Rating
Satisfactory

b. Quality of supervision
Implementation Support. The World Bank supervised the project regularly, producing seven Implementation Status and Results Reports (ISRs) over the four-and-a-half-year duration of the project, or two a year, the average for Investment Project Financing operations. The ISRs rated the project performance as satisfactory throughout project implementation, except in April 2023, when the ISR considered the project performance to be moderately satisfactory due to delays with the introduction of the new credit guarantee window at the KCGF.

According to the ICR, the World Bank collaborated closely with the Government on many aspects of project implementation including on the performance of the credit guarantee windows, the compliance by partner financial institutions of the project terms and conditions, procurement, financial management, and the state of the financial sector.

Adaptation. The outbreak of the COVID-19 pandemic in March 2020 and the resulting economic downturn (real GDP contracted by 5.3 percent in 2020) prompted the Government to plan an Economic Recovery Law (subsequently passed by Parliament in December 2020) and an Economic Recovery Program that, among others, provided for the opening at the KCGF of an Economic Recovery Package window of partial credit guarantees at terms more favorable than in the regular window -- a larger loan size of eligible loans by partner financial institutions, a and a higher guarantee coverage ratio.

The World Bank provided needed technical assistance during project implementation to the Ministry of Finance, Labor, and Transfers and to the KCGF for the preparation of this Economic Recovery Package window, as well as with the analysis of the risks associated with the utilization by this window of the project funds. Part of project funds for the capitalization of the KCGF, released in a single tranche after project effectiveness, would support partial credit guarantees issued by the Economic Recovery Package window, which would operate for a year during the pandemic -- in 2021 -- and subsequently expire.

The reallocation of the contributed capital to the KCGF for the regular window and the new windows (for start-ups and women businesses) after the Economic Recovery Package window closed in end-2021 proved problematic for several reasons: (a) the KCGF Law was amended in 2021 to conform with the Economic Recovery Program Law, passed in 2020; (b) the KCGF received new capital from the proceeds of a European Investment Bank loan of EUR 40 million to Kosovo in June 2021, which affected the utilization of the IDA project funds; (c) it took time to design and introduce the new windows -- the new windows for start-ups and for women businesses were not opened until 2023; and (d) the KCGF had to revamp its legal framework and operational processes to adjust to the post-COVID-19 economy, in which banks had only slowly become less risk averse than during the height of the pandemic. The World Bank assisted the KCGF in designing the new windows, paying particular attention to MSME eligibility criteria under the new windows for start-ups and women businesses.

Shortcomings with Supervision. The ICR suggests that the World Bank could have restructured the project as the Economic Recovery Package window was introduced: (a) first, to modify the results targets in view of revisions to the average MSME loan size and the guarantee coverage ratio (from 50 to 80 percent) for the Economic Recovery Package window; and (b) second, to utilize more of the funding of the second component (only half was utilized) (see Section 2.E) -- the option would have been to add new activities in support of the goal to strengthen the institutional capacity of the KCGF.

Quality of Supervision Rating
Satisfactory

Overall Bank Performance Rating
Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design
The World Bank defined a results framework for the project of eight output (intermediate results) and two outcome (PDO-level) indicators to measure the degree of achievement of the project objectives. The

results indicators were specific, measurable, achievable, relevant, and time bound. However, the results framework had deficiencies: (a) there were no results indicators for three outputs defined in the theory of change -- increased capital base of the KCGF, the establishment of a strategic window at the KCGF, and new financial products; (b) the number of MSMEs benefitting from partial credit guarantees could have been added as an outcome indicator.

The M&E plan required the KCGF, as the project implementing entity, to submit a Project Report to the World Bank within 45 days from the end of each calendar semester.

b. M&E Implementation

The KCGF implemented the M&E plan as designed.

Additionally, the KCGF conducted surveys of partner financial institutions and MSMEs to gather data about the project economic benefits. The KCGF joined the World Bank, the Central Bank of Kosovo, and the Ministry of Finance, Labor, and Transfers in preparing an impact study to assess the effects of the guaranteed loans on MSMEs performance. According to the ICR, the KCGF's participation in the impact study also helped the institution build capacity for evaluation.

c. M&E Utilization

The M&E data helped the KCGF to (a) estimate demand for credit guarantees under its regular window.; and (b) to design its new credit guarantee windows, including those serving women businesses, startups, green projects, and exports.

According to the ICR, the M&E data and reports also helped the KCGF mobilize additional capital from other development partners. The European Investment Bank contributed EUR 40 million to the regular window of the KCGF in June 2021.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

Environmental and Social Safeguards. The project was classified as an Environmental Assessment category FI project ("the project provides funds to a bank, or credit institution, for on-lending at the financial intermediary’s own risk [OP/BP 8.30 – Financial Intermediary Lending]") at appraisal and triggered safeguards policy OP/BP - Environmental Assessment. The Government prepared an Environmental Assessment Management Framework for the project and supported 11 partner financial institutions to prepare Environmental and Social Management Systems (ESMS). The KCGF trained more than 1,500 loan officers at partner financial institutions to apply the ESMS and enlisted the expertise of an environmental specialist to help build capacity for environmental management at financial institutions. Meanwhile, the partner financial institutions supported only those MSME sub-projects that were classified as category B ("some type of environmental assessment/review/plan is required, but limited in scope and flexible in structure, reflecting the limited environmental impacts of the project and the anticipated relatively straightforward mitigation") or category C ("no environmental review is required") and appointed an environmental specialist to oversee the environmental and social risk management of their portfolios. Compliance with OP/BP 4.10 and with Overall Safeguards was rated Moderately Satisfactory throughout most of project implementation, including in the last ISR of April 2023.

b. Fiduciary Compliance

Procurement. The KCGF was not subject to government procurement laws, which, when aligned with World Bank guidelines, are usually relied upon elsewhere to ensure compliance with World Bank rules. The KCGF also had little experience with World Bank procurement guidelines and experienced a notable turnover in procurement staff. Project procurement activities were consequently delayed, and procurement risk was rated Substantial throughout most of project implementation. Nonetheless, procurement performance turned out to be Moderately Satisfactory, including in the last ISR of April 2023.

Financial Management. The World Bank found the project financial management and disbursement arrangements to be adequate, including those for project planning and budgeting, accounting and financial reporting, internal control, and audit. The KCGF was, by law, subject to public financial reporting and independent audit requirements, which it complied with. There were no major issues with financial management, which was rated Satisfactory in the last five ISRs, including in the final one in April 2023.

c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	
Bank Performance	Satisfactory	Satisfactory	
Quality of M&E	Substantial	Substantial	
Quality of ICR	---	Substantial	

12. Lessons

Two lessons are drawn from the ICR, with some adaptation.

Partial credit guarantee schemes offer an effective and efficient way to expand SME finance by encouraging banks and nonbank financial institutions to serve the SME market especially at a time of economic stress. In this operation, the Economic Recovery Package window at the KCGF provided guarantees worth EUR 59.9 million to backstop 1,574 loans amounting to EUR 84.7 million in 2021 during the COVID-19 pandemic. The temporary one-year window benefitted 1,370 MSMEs. This represented the highest number of guarantees the KCGF ever issued in any one year since its creation in 2016 and helped the SME-dominated economy rebound to a 10.8 percent growth in 2021 after contracting by 5.3 percent in 2020. Partial credit guarantee schemes were frequently employed to support SME activities elsewhere globally during the pandemic, according to the ICR, and the KCGF and its special window were often cited as examples of an efficient institution and effective instrument.

Close coordination among development partners helps avoid the duplication of assistance to credit guarantee institutions and helps optimize the use donor resources aimed at enhancing access to finance for MSMEs. In this and related operations, the development partners directed their capital assistance to the KCGF at separate segments of the credit guarantee market, with the World Bank focusing on the regular window and the new windows for start-ups and women businesses and the EIB on the regular window alone. Meanwhile, the KfW focused on agricultural lending, the Millenium Challenge Corporation on green lending, and SIDA on re-guarantees. The development partners collaborated extensively during the pandemic, according to the ICR, particularly to amend the KCGF Law and to design the Economic Recovery Package window with more liberal terms than under the regular window operating in normal times.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is consistent with OPCS guidelines on ICRs for investment project financing operations. The efficacy assessment is outcome-oriented and based on the degree of achievement of the results targets (Annex 3). The efficiency assessment is supported by adequate evidence, principally the findings of a World Bank impact assessment of the operation (Annex 4). The ICR presents ample evidence to support its assessment of the Bank's performance at design and implementation. The inclusion of the Borrower's ICR (Annex 5) provides useful information about the preparation and implementation of the project, including the rationale for choosing the partial credit guarantee scheme over the traditional credit line approach to supporting MSME finance. The

ICR draws lessons that would be valuable to the design of future projects focused on MSMEs. Overall, the quality of the ICR is rated as substantial.

a. Quality of ICR Rating

Substantial