Report Number: ICRR0024704

1. Project Data

Project ID P174604	**Project Name** BiH Firm Recovery and Support Project
Country Bosnia and Herzegovina	**Practice Area(Lead)** Finance, Competitiveness and Innovation

L/C/TF Number(s)	**Closing Date (Original)**	**Total Project Cost (USD)**
IBRD-91830	31-Dec-2024	22,367,274.06
Bank Approval Date	**Closing Date (Actual)**	
11-Dec-2020	31-Dec-2024	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	65,300,000.00	0.00
Revised Commitment	47,127,942.86	0.00
Actual	22,367,274.06	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
Nestor Ntungwanayo	Vibecke Dixon	Avjeet Singh	IEGSD (Unit 4)

2. Project Objectives and Components

a. Objectives

As per the Loan Agreement (LA) on page 5, "the Project Development Objective (PDO) is to support the recovery of micro, small and medium enterprises (MSMEs) affected by COVID-19 through improved access to long term financing and to refocus government programs to support MSMEs' resilience in the aftermath of COVID-19". The PDO statement in the Project Appraisal Document (PAD) was identical.

During the August 2024 restructuring, the PDO was revised to read as follows in the Amended LA on page 1: "The PDO is to support the recovery of micro, small and medium enterprises (MSMEs) through improved

access to long-term financing and to refocus on government programs to support MSMEs resilience in the aftermath of COVID-19 (i.e., “affected by COVID-19” was removed from the PDO).

For clarity in the assessment of the project's performance, the PDO will be unpacked in two specific PDOs. Moreover, because of the August 2014 level 1 restructuring, a split assessment of the project's efficacy will be conducted as follows:

Efficacy assessment for the period of December 2020-June 2024

- PDO-1: To support the recovery of micro, small and medium enterprises (MSMEs) affected by COVID-19 through improved access to long term financing.
- PDO-2: To refocus government programs to support MSMEs’ resilience in the aftermath of COVID-19.

Efficacy assessment for the period of July 2024- December 2024

- PDO-1: To support the recovery of micro, small and medium enterprises (MSMEs) through improved access to long term financing.
- PDO-2: To refocus government programs to support MSMEs’ resilience in the aftermath of COVID-19.

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

Yes

Did the Board approve the revised objectives/key associated outcome targets?

Yes

Date of Board Approval

30-Aug-2024

c. Will a split evaluation be undertaken?

Yes

d. Components

The project consisted in three components as detailed below.

Component 1 - Line of credit (cost at appraisal of US$59.6 million equivalent, actual cost of US$20.3 million): This component intended to establish and operate a credit facility that would channel financing to selected participating financial institutions (PFIs), which would on-lend sub-loans to eligible MSME beneficiaries. The facility was to provide term funding to PFIs that, in turn, would extend financing with maturities of at least three years to viable, privately owned MSMEs affected by the crisis and to other underserved segments, helping them weather the shock, restore regular operations, and continue to grow. To maximize outreach and additionality, the component aimed to prioritize longer-tenor working capital and investment loans—especially for smaller and underserved MSMEs.

Component 2 - Strengthen the institutional and program framework in support of firm recovery and growth via performance-based conditions (PBCs), (cost at appraisal of US$5.1 million equivalent,

actual cost of US$3.3 million). Component 2 aimed to finance Eligible Expenditure Programs (EEPs) in the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS) to support the Federation Ministry of Development, Entrepreneurship and Crafts (FMDEC) and Republika Srpska's Ministry of Economy and Entrepreneurship (RS MEE) in: (1) adopting an annual action plan and allocating budgets for programs that promote technology and digital adoption by firms to boost productivity in the aftermath of COVID-19; and (2) (i) establishing an M&E mechanism to assess the operations and effectiveness of firm-support programs and (ii) operating all MSME support programs at FMDEC/RS MEE under a consolidated M&E framework. The component intended to refocus government programs on firm growth and capability-building to raise productivity, support recovery, and strengthen MSME resilience after COVID-19.

Component 3 - Project Management (cost at appraisal of US$0.6 million equivalent, no actual cost, because PIUs embedded in FBiH Development Bank and RS Investment Development Bank did not use the budgeted resources): This component was to be a project management component, focused on providing financing for the FBiH PIU operation including costs related to operational, procurement, environmental and social safeguards, surveys tracking project implementation, and project audits.

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

Project cost: Actual cost of the project is US$23.6 million or 36 percent of the committed amount at appraisal of US$65,30 million equivalent.

Financing: The project was funded by an IBRD loan in the amount of EUR 56 million, or US$65.3 million equivalent.

Borrower Contribution: There was no planned contribution from the Borrower at appraisal, and there was none during implementation.

Dates: The project was approved on December 11, 2020, and made effective on September 20, 2021, and was closed at the original term set on December 31, 2024. A mid-term review was conducted during September 2022 midterm review to assess project progress and prepare for restructuring.

Restructuring: The project was restructured once on August 30, 2024. Key changes brought in by the restructuring include the following: (i) amendment to the PDO, (ii) adjustment of the refinancing cap, (iii) revision to the results indicators, and (iv) partial cancellation of loan allocation.

3. Relevance of Objectives

Rationale

Country Context

At appraisal, Bosnia and Herzegovina (BiH) had been at peace for 25 years and had made notable progress despite a complex political setup, with an estimated per capita GNI of US$6,150. War-damaged

infrastructure had largely been rebuilt; multi-level institutions were in place; and an economic–fiscal framework had supported lasting macroeconomic stability. Reforms had improved economic links between FBiH and RS and helped advance the business environment for private sector development and jobs. However, significant additional reforms were needed to secure sustainable prosperity and realize BiH's EU accession aspirations.

The pandemic precipitated the sharpest downturn since 2008–09; GDP growth, already weakening in 2019, was projected to contract by 3.2 percent in 2020. Key sectors were hit hard; job losses rose—especially in services—raising unemployment, poverty, and migration risks. Structural labor market issues, limited social protection, and weak intergovernmental coordination constrained the response. MSMEs, particularly underserved segments, faced acute financing constraints and survival risks.. The crisis highlighted the need for reforms in the business environment, disaster preparedness, and climate resilience. BiH's exposure to climate shocks (e.g., floods) underscored the need to build adaptive capacity.

The pandemic revealed persistent weaknesses in innovation, digital adoption, and productivity. Most MSMEs lacked international standards and digital tools; investment—particularly in RS—was low. Priority actions included strengthening enterprise support programs, improving management capabilities, and instituting rigorous M&E to raise competitiveness in the post-COVID economy. MSMEs experienced acute liquidity pressures, insolvency risks, and tighter credit conditions. Early relief stabilized firms but did not address sustained financing needs.

A Bank-intermediated, targeted term credit line emerged as a key recovery tool—prioritizing women-led, youth-led, and regionally disadvantaged firms—to keep viable MSMEs operating, safeguard jobs, and underpin recovery. The project aimed to support a resilient and inclusive recovery by strengthening institutions, sustaining credit to MSMEs, and promoting technology adoption and policy reforms to help firms build a more sustainable, shock-resilient private sector.

The PDOs were in line with the Borrower priorities, and the WBG strategies.

Toward addressing the COVID-19 impact of MSMEs viability, BiH and RS authorities undertook a series of steps to provide immediate relief to help firms "keep the lights on", the focus being put on the restoration of credit flows to boost investment and maintain firms' operations and jobs. FBiH allocated subsidies to set up a special fund to stabilize the economy and establish a Guarantee Fund to complement the BAM 80 million already allocated within the FBiH Development Bank (FBiH DB). The RS government adopted a temporary credit guarantee scheme aimed at providing up to BAM 50 million support through the RS Guarantee Fund. This project was in line with the efforts of FBiH and RS governments aimed at addressing the COVID-19 impact, sustaining credit to MSMEs, and promoting policy reforms helping firms build a more resilient private sector. In that respect, this project provided a credit line intermediated by the banking sector that specifically supported MSMEs that had been significantly affected by the crisis and other vulnerable firms through the provision of term financing, which was the appropriate mechanism to provide targeted support that ensures additionality.

The project aligned with the Country Partnership Framework (CPF), High-Level Outcome 1 ("Increased inclusive private sector employment"), specifically Objective 1 ("Increased private sector–led growth"). According to the CPF 2023–2027 assessment, BiH's business environment remained challenging, constraining private sector competitiveness domestically and internationally. The country underperformed within the Western Balkans on indicators such as the time and cost to start a business. Access to finance was a major constraint—especially for MSMEs and female-led firms—which faced

collateral hurdles and limited access to suitable financial products and services. Commercial banks remained cautious in lending to MSMEs, and the nonbank financial sector was underdeveloped, representing only about 12 percent of financial assets. Additionally, weak infrastructure—particularly transport—and low productivity in key sectors such as agri-food further dampened private sector competitiveness.

The PDO remained highly relevant to BiH's CPF 2023–2027 throughout implementation. The mid-course PDO change during restructuring ensured the operation stayed aligned with an evolving economic context, better matched post-COVID market conditions, addressed implementation challenges, and broadened the pool of eligible beneficiaries. At project closing, there were no shortcomings in the PDO's relevance to the current CPF. The project complemented temporary credit guarantee schemes established by governments in both entities, which were designed to encourage credit provision to the economy.

The activities under the project fell under the Relief and Resilient Recovery Stages, as outlined in the "World Bank Group COVID-19 Crisis Response Approach Paper" (June 2020). They were deemed to contribute particularly to Pillar 3: Ensuring Sustainable Business Growth & Job Creation as well as Pillar 4: Strengthening Policies, Institutions and Investments for Rebuilding Better. The project, in close coordination with the International Finance Corporation (IFC), intended to support the flow of credit to the real economy during the pandemic and throughout the recovery phase, providing term financing to crisis-affected but otherwise solvent firms. It was to focus on micro and small enterprises, as well as underserved MSMEs, through banks and non-bank financial institutions

Overall, the relevance of the revised PDO is rated High, reflecting the alignment among the revised PDO, the Borrower development priorities, and the WBG strategies in BiH.

Rating
High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective
To support the recovery of micro, small and medium enterprises (MSMEs) affected by COVID-19 through improved access to long term financing.

Rationale
Theory of change.

There was a theory of change in the PAD outlining the linkage between the project activities and the PDO. The ICR presented on pages 2-3 the theory of change initiated in the PAD, which establishes the logical

chain by which activities of the project were to contribute to the expected outputs and outcomes. This review summarizes below the results chain underlying the process of achieving the project development objective.

Toward achieving the PDO-1, the project was to fund the establishment of a credit facility that channels financing to selected participating financial institutions (PFIs), which was to on-lend sub-loans to eligible MSME beneficiaries.

Expected outputs included: (i) strengthened institutions (action plans and program prepared) and (ii) enhanced knowledge (number of staff trained) accrued from the provided TA under the project.

Expected outcomes included the following: (i) an increased ratio of weighted average change in operating results of the MSMEs financed under the Project, (ii) a projected number of firms to be financed under the Project, (iii) an increased volume level of credit line to be disbursed under the Project, (iv) a number of firms to be financed in vulnerable segments through PFIs, (v) a number of jobs to be preserved/created by MSMEs, (vi) an increase in the portfolio quality, in the return on Assets (%), and in the Return on Equity (%), and (vii) the share in percentage of firms that will report Project sub-finance reflecting their needs.

However, neither the PAD nor the ICR discussed the assumptions that were essential to achieving the PDO, nor the attribution of the achieved outcome. Overall, there was a logical chain linking the identified activities and expected outputs and outcomes, and there was a consistency between this theory of change and the project's Results Framework (RF).

Outputs

- The original target for the M&E manual prepared for both entities with the technical assistance of WB was achieved. In RS, the M&E manual was approved in February 2023 and utilized for assessing the MSMEs program results for 2022.
- The original target for the new annual action plan/firm incentive program adopted including programs promoting technology and digital adoption was achieved. The new annual action plan and firm incentive program was adopted in FBiH and RS.

Outcomes

- The number of firms financed under the Project was not achieved (23.3 percent), totaling 56 against the original target of 240, with FBiH totaling 38 and 18 for RS.
- The target of the volume of credit line disbursed under the Project was not achieved (25.7 percent), totaling an amount of EUR 17.4 million against the original target of EUR 51 million, with disbursements in FBiH totaling EUR 13.1 million, and EUR 4.32 million in the RS.
- The target for the number of firms financed in vulnerable segments (women inclusive, young firms and lagging regions) through PFIs was not achieved (73.3 percent), totaling 44 against the original target of 60, with 31 for FBiH, and 13 fin the RS.
- The target for the ratio of weighted average change in operating results [Value Added] of the MSMEs financed under the Project, over the average change of operating results [Value Added] in their respective sector was exceeded, reaching 3.02, with 1.56 for FBiH and RS respectively, against the original target of a ratio >1. The achieved performance for the target for all micro and small enterprises financed under the project was exceeded, reaching 1.16, and 1.56 for FBiH and RS respectively, against a target of a ratio >1

- The target for the number of MSMEs that have implemented measures to adapt to COVID-19 environment with support of government programs was largely exceeded, reaching a total of 568 against the original target of 50, with FBiH totaling 165 and 403 for RS.
- The target for the number of women-inclusive firms financed through PFIs was exceeded (96.7 percent), reaching 29 out of an original target of 30, with 21 for FBiH and 8 for the RS.
- The target for the number of jobs preserved/created by MSMEs (women-inclusive MSMEs), was largely exceeded, totaling 1,510 against an original target at approval of nil, with 1220 for FBiH 1220 and 290 for RS 290.
- The target for the Portfolio Quality, as reflected by the Portfolio at risk (percentage of portfolio at risk) was achieved, reaching on average 2.08 percent against an original target of 7 percent.
- The target for the share in percentage of firms that reported Project sub-finance reflected their needs was exceeded, reaching 100 percent against an original target of 90 percent.
- The target for the share in percentage of firms that reported Project sub-finance reflected their needs was exceeded, reaching 100 percent against an original target of 90 percent.

The following additional information was provided by the ICR , but had no target values:

- The target for the Return on Assets (%) was monitored for analytical purposes and aimed at helping improve related policies and projects. As there was no target value set, the indicator improved compared to baseline (post Covid-19) indicating stability and sustainability of PFIs. Return on Assets was 1.69 percent for FBiH 1.69 % and 1.7 percent for RS.
- The target for the Return on Equity was monitored for analytical purposes and aimed to help improve related policies and projects. As there was no target value set, the indicator improved compared to baseline (post Covid-19) indicating stability and sustainability of PFIs Return on equity was 116.4 percent for FBiH 16.06 percent for RS.

In sum, the project failed to deliver against key indicators such as number of firms financed, the volume of credit disbursed, and the number of firms financed in vulnerable segments. It did, however, deliver strong performance regarding value added for MSMEs, job creation, adaptation to COVID-19, gender inclusion, and portfolio quality. On balance, efficacy toward the PDO-1 assessed against the original RF is rated as Modest.

Rating
Modest

OBJECTIVE 1 REVISION 1
Revised Objective
To support the recovery of micro, small and medium enterprises (MSMEs) through improved access to long-term financing

Revised Rationale
Theory of change

There was a theory of change in the PAD outlining the linkage between the project activities and the PDO. The ICR discussed the theory of change presented in the PAD on pages 2-3, which summarizes the logical

chain by which activities of the project were to be transformed into outputs and outcomes. This review outlines below the results chain underlying the process of achieving the project development objective.

Toward achieving the PDO, the project was to fund the following activities: (i) to finance Eligible Expenditure Programs (EEPs) in the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS) to support the Federation Ministry of Development, Entrepreneurship and Crafts (FMDEC) and Republika Srpska's Ministry of Economy and Entrepreneurship (RS) MEE in: (1) adopting an annual action plan and allocating budgets for programs that promote technology and digital adoption by firms to boost productivity in the aftermath of COVID-19; and (2) establishing an M&E mechanism to assess the operations and effectiveness of firm-support programs and operating all MSME support programs at FMDEC/RS MEE under a consolidated M&E framework. The component intended to refocus government programs on firm growth and capability-building to raise productivity, support recovery, and strengthen MSME resilience after COVID-19.

Toward achieving the PDO-2, the project was to fund Eligible Expenditure Programs (EEPs) in the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS) to support the Federation and (ii) to support for Project Implementation and Monitoring.

Expected outputs included (i) the adoption of targeted support programs promoting technology and digital adoption, key enablers of MSME resilience, and (ii) the adoption of annual action plans and budget allocations for such programs.

Expected outcomes included: (i) the number of MSMEs that have implemented measures to adapt to COVID-19 environment with support of govt programs, and (ii) the share of beneficiaries that report that the project has established effective engagement processes.

However, both the PAD and the ICR did not discuss the assumptions that were essential to achieving the PDO, nor the attribution mechanism of the achieved outcome. Overall, there was a logical chain linking the identified activities and expected outputs and outcomes, and there was a consistency between this theory of change and the RF discussed under Section 9. However, the reconstructed theory of change overlooked the assumptions and the attribution aspects of the theory of change.

Outputs

- Outputs achieved under the restructured project are essentially identical to those presented under the original project.

Outcomes

- The original target for the number of MSMEs that have implemented measures to adapt to COVID-19 environment with support of govt programs was unchanged and was largely exceeded, totaling 568 against an original of 50, with 165 for FBiH, and 403 for RS
- The share of beneficiaries that report that the project has established effective engagement processes was 100%, while the revised target was 61.3 percent.

Overall, results related to government programs supporting MSMEs resilience in the aftermath of COVID-19 were substantially achieved, following sustained technical assistance provided to Government's services and incentive programs, but offset by the PIU's inability to disburse the Component 3.

Revised Rating
Modest

OBJECTIVE 2
Objective
To refocus on government programs to support MSMEs resilience in the aftermath of COVID-19

Rationale
Theory of change

There was a theory of change in the PAD outlining the linkage between the project activities and the PDO. The ICR reproduced the theory of change presented in the PAD on pages 2-3, which summarizes the logical chain by which activities of the project were to be transformed into outputs and outcomes. This review outlines below the results chain underlying the process of achieving the project development objective.

Toward achieving the PDO-2, the project was to fund Eligible Expenditure Programs (EEPs) in the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS) to support the Federation and (ii) to support for Project Implementation and Monitoring.

Expected outputs included (i) the adoption of targeted support programs promoting technology and digital adoption, key enablers of MSME resilience, and (ii) the adoption of annual action plans and budget allocations for such programs.

Expected outcomes included the share in percentage of beneficiaries that report that the project has established effective engagement processes.

However, neither the PAD nor the ICR discussed the assumptions that were essential to achieving the PDO, nor the attribution mechanism of the achieved outcome. Overall, there was a logical chain linking the identified activities and expected outputs and outcomes, and there was a consistency between this theory of change and the project's RF. However, the reconstructed theory of change overlooked the assumptions and the attribution aspects of the theory of change.

Outputs

- The original target for the M&E manual prepared for both entities with the technical assistance of the WB was achieved. In RS, the M&E manual was approved in February 2023 and utilized for assessing the MSMEs program results for 2022.
- The original target for the new annual action plan/firm incentive program adopted including programs promoting technology and digital adoption was achieved. The new annual action plan and firm incentive program was adopted in FBiH and RS.

Outcomes

- The target for the share of beneficiaries that report that the project has established effective engagement processes was exceeded and reached 100 percent against the original target of 80 percent.
- The original target for the number of MSMEs that have implemented measures to adapt to COVID-19 environment with support of govt programs was largely exceeded, totaling 568 against an original of 50, with 165 for FBiH, and 403 for RS

Overall, results related to government programs supporting MSMEs resilience in the aftermath of COVID-19 were substantially achieved, following sustained technical assistance provided to enhance Government's services and incentive programs, but offset by the PIU's inability to disburse the Component 3.

Rating
Substantial

OBJECTIVE 2 REVISION 1
Revised Objective
To refocus on government programs to support MSMEs resilience in the aftermath of COVID-19.

Revised Rationale
Theory of change

There was a theory of change in the PAD outlining the linkage between the project activities and the PDO. The ICR discussed the theory of change presented in the PAD on pages 2-3, which summarizes the logical chain by which activities of the project were to be transformed into outputs and outcomes. This review outlines below the results chain underlying the process of achieving the project development objective.

Toward achieving the PDO, the project was to fund the following activities: (i) to finance Eligible Expenditure Programs (EEPs) in the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS) to support the Federation Ministry of Development, Entrepreneurship and Crafts (FMDEC) and Republika Srpska's Ministry of Economy and Entrepreneurship (RS) MEE in: (1) adopting an annual action plan and allocating budgets for programs that promote technology and digital adoption by firms to boost productivity in the aftermath of COVID-19; and (2) establishing an M&E mechanism to assess the operations and effectiveness of firm-support programs and operating all MSME support programs at FMDEC/RS MEE under a consolidated M&E framework. The component intended to refocus government programs on firm growth and capability-building to raise productivity, support recovery, and strengthen MSME resilience after COVID-19.

Toward achieving the PDO-2, the project was to fund Eligible Expenditure Programs (EEPs) in the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS) to support the Federation and (ii) to support for Project Implementation and Monitoring.

Expected outputs included (i) the adoption of targeted support programs promoting technology and digital adoption, key enablers of MSME resilience, and (ii) the adoption of annual action plans and budget

allocations for such programs. Expected outcomes included: (i) the share in % of beneficiaries that report that the project has established effective engagement processes. (Percentage) (Percentage), and (ii) the share in % of firms reporting Project sub-finance reflected their needs.

However, both the PAD and the ICR did not discuss the assumptions that were essential to achieving the PDO, nor the attribution mechanism of the achieved outcome. Overall, there was a logical chain linking the identified activities and expected outputs and outcomes, and there was a consistency between this theory of change and the RF discussed under Section 9. However, the reconstructed theory of change overlooked the assumptions and the attribution aspects of the theory of change.

Outputs

- The target for the M&E manual prepared for both entities with the technical assistance of the WB was achieved. In RS, the M&E manual was approved in February 2023 and utilized for assessing the MSMEs program results for 2022 and on. The FMDEC in FBiH finalized its M&E Rulebook, but it is still pending formal adoption by the minister. The working version of the Monitoring and Evaluation Manual agreed with the WB team, submitted to the Minister for approval (Federation).
- The target for the new annual action plan/firm incentive program adopted including programs promoting technology and digital adoption was achieved. The new annual action plan and firm incentive program was adopted in FBiH and RS.

Outcomes

- The share of beneficiaries that report that the project has established effective engagement processes was 100 %, while the target was 61.3 percent.

Overall, results related to government programs supporting MSMEs resilience in the aftermath of COVID-19 were substantially achieved, following sustained technical assistance provided to Government's services and incentive programs, with achieved results being predominantly at output level.

Revised Rating
Substantial

OVERALL EFFICACY
Rationale
Toward supporting the recovery of micro, small and medium enterprises-MSMEs (PDO-1) affected by COVID-19 through improved access to long term financing, results were limited in terms of actual financing to MSMEs due to substantial delays and implementation bottlenecks.

Toward refocusing government programs to support MSMEs' resilience in the aftermath of COVID-19 (PDO-2), results related to government's programs supporting MSMEs resilience in the aftermath of COVID-19 were

substantially achieved, following sustained technical assistance provided to Government's services and incentive programs, but offset by the PIU's inability to disburse the Component 3.

On balance, overall efficacy is rated as Modest.

Overall Efficacy Rating	Primary Reason
Modest	Low achievement

OVERALL EFFICACY REVISION 1

Overall Efficacy Revision 1 Rationale

Post-restructuring, there were verifiable institutional outcomes toward PDO-2, negatively affected by the PIU's inability to disburse Component 3 resources. Moreover, toward PDO-1, the core mechanism for private sector recovery has had limited results in terms of providing financing to MSMEs. On balance, overall efficacy is rated as Modest.

Overall Efficacy Revision 1 Rating	Primary Reason
Modest	Low achievement

5. Efficiency

Cost-benefit efficiency.

Cost-benefits analysis was not conducted at appraisal, as subprojects were not pre-identified and costs were undefined, precluding traditional economic and financial analysis. Below is the summary of the cost-benefit efficiency completed in the context of the ICR preparation (p.17-18).

Component 1 did not show strong cost-effectiveness. Of the EUR 56 million originally allocated—EUR 51 million to the Line of Credit (Component 1)—disbursement was low: only 49.2 percent of the restructured loan amount and 34.1 percent of the original Component 1 amount were disbursed. The number of MSMEs reached under Component 1 was small, with only 56 firms supported out of a revised target of 180 (original target was 240). The limited uptake and high administrative overhead resulted in a cost per beneficiary likely above acceptable norms for similar operations. Moreover, the cost of on-lending through PFIs was shaped by both the source of funds and institutional decisions. In RS, the cost to PFIs was 2.24 percent, reflecting IBRD loan pricing, plus the development bank's administrative costs and credit risk. In FBiH, interest rates were subsidized to improve uptake, reducing the cost of funds to PFIs to as low as 0.8 percent for banks and 1.5 percent for leasing companies. The final cost to MSMEs included the PFI's own administrative and credit risk margins.

Component 2 displayed greater cost-efficiency. The component financed results-based disbursements to relevant ministries in both entities, and delivered verifiable institutional improvements, including adoption of annual action plans for digital and technology upgrades in MSMEs and establishment of M&E frameworks to assess program effectiveness. Costs incurred were modest relative to the systemic benefits, that have the

potential to generate long-term value for money given the scale and strategic importance of the reforms supported.

Operational efficiency.

Implementation efficiency was constrained by several challenges. The project faced substantial delays, including over 14 months to meet initial disbursement conditions, which hindered early momentum and limited support to COVID-19 affected MSMEs. Component 1 encountered operational bottlenecks such as delayed effectiveness, compressed implementation time, lengthy approval and fund flow processes, cumbersome E&S documentation requirements, multiple PIU leadership turnovers, a fire in the RS IDB building, and difficulties aligning with PFIs. Component 2 performed better and achieved most PBCs but represented a smaller share of the budget. The third component, intended for project management, remained unused despite capacity gaps in the implementing unit.

A notable factor was the high level of implementation support provided by the WB team, which significantly increased supervision costs. From 2022 to 2024, the WB team conducted frequent missions, including biweekly meetings with PIUs, and provided extensive technical support in procurement, financial management, E&S safeguards, and restructuring. While these efforts demonstrated strong responsiveness, the time and cost invested were disproportionate to the project's tangible outcomes, particularly under Component 1. Persistent confusion over basic implementation procedures among PFIs and PIUs, despite continuous support, highlighted inefficiencies in knowledge transfer and institutional readiness

Taking into account the combination of low disbursement, limited outreach, high administrative and supervision costs, and implementation inefficiencies, the project's overall efficiency is rated as Modest.

Efficiency Rating

Modest

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

As summarized in the table below, the relevance of the original and the revised PDOs is rated High, reflecting good alignment between the original and the revised PDO, the Borrower development priorities, and the WBG

strategies in BiH. Overall efficacy of the original and the restructured projects was modestly achieved. Efficiency was Modest, resulting in an overall MU rating of the project outcome.

Variables	Original objectives and targets without restructuring	Revised objectives and/or target with restructuring
Relevance of PDO	High	High
Efficacy (PDO)	Modest	Modest
PDO-1	Modest	Modest
PDO-2	Substantial	Substantial
Efficiency	Modest	Modest
Outcome ratings	Moderately Unsatisfactory	Moderately Unsatisfactory
Numerical value of the outcome ratings	3.0	3.0
Disbursement	18.4	20.4
Share of disbursement	0.47	0.53
Weighted value of the outcome rating	1.42	1.58
Overall Outcome rating	**3.00 (Moderately Unsatisfactory)**	

a. Outcome Rating

Moderately Unsatisfactory

7. Risk to Development Outcome

While institutional reforms under Component 2, such as M&E frameworks and MSME support programs, have laid a foundation for longer-term improvements, their full integration into routine government systems in FBiH, remains incomplete. For this long-term sustainability, the Government will have to address potential macroeconomic and political risks as discussed below.

Macroeconomic risks: BiH is highly exposed to global and regional economic shocks due to its reliance on trade and international capital flows. Events such as global recessions, commodity price volatility, or disruptions in EU markets can quickly transmit adverse effects to BiH's economy. Rising global inflation, especially in energy and food, has direct impacts on BiH's import-dependent economy, eroding purchasing power and increasing costs for businesses and households. Finally, the complex constitutional structure and frequent political deadlock between the Federation of BiH (FBiH) and Republika Srpska (RS) can delay or undermine coordinated policy responses to macroeconomic shocks, affecting the sustainability of reforms and government support for development projects

Political risks. Political and governance risks in BiH's SME finance projects are real and substantial, rooted in the country's fragmented political system and history of state capture. So far, the World Bank has responded by (i) redesigning project implementation to separate credit decisions from politically exposed institutions, (ii) Strengthening eligibility and oversight mechanisms, (iii) supporting parallel reforms of development banks, and (iv) promoting competition and transparency through a wholesale credit line

model. These measures have reduced, but not eliminated, the risk of political interference and governance failures. Continued vigilance, strong supervision, and sustained reform of development banks are essential to ensure the integrity and effectiveness of SME finance operations in BiH.

8. Assessment of Bank Performance

a. Quality-at-Entry

The World Bank team ensured the Project's strategic relevance and alignment with country needs, but implementation arrangements required more scrutiny. The project was well integrated with government support programs aimed at providing investment support for micro, small, and medium enterprises (MSMEs). Its focus on improving MSME access to long-term finance and strengthening institutional support mechanisms was both timely and appropriate, addressing urgent economic disruptions caused by the pandemic. The technical and financial design of the project leveraged lessons learned from previous World Bank operations in Bosnia and Herzegovina (BiH) and the broader region. By adopting a wholesale lending model through development banks, the project aimed to maximize outreach and avoid market distortions. However, the setup of implementation arrangements could have been strengthened; the PIUs had limited prior experience in World Bank operations and needed time to familiarize with Bank requirements and procedures. Moreover, the country's dual-entity structure (FBiH and RS) introduced complexity that required careful coordination to ensure effective delivery.

Poverty and gender considerations were well integrated into the project design, and the Bank ensured coordination with other donors. Environmental and social (E&S) safeguards were appropriately addressed, with the project classified as moderate risk. During project preparation, World Bank inputs were proactive and closely coordinated with other donors and international financial institutions, such as the European Bank for Reconstruction and Development (EBRD), International Finance Corporation (IFC), and International Monetary Fund (IMF). This coordination ensured complementarity and additionality of support.

The project's approach to stakeholder selection and risk assessment was consistent with global best practices. By targeting underserved MSMEs, including women-led firms, and selecting development banks as PIUs, the project aimed to catalyze market-based finance and avoid crowding out private capital. Risks related to political fragmentation, innovation system development, and institutional capacity were best mitigated through strong donor alignment, clear operational procedures, and early technical support.

However, implementation readiness was weak and relied on a component which did not disburse. Fiduciary systems were deemed adequate, and implementation arrangements were built on the capacity of existing financial institutions, but in the hindsight, Project Implementation Units (PIUs) had limited prior experience in World Bank operations and needed time to familiarize themselves with Bank requirements and procedures.

Overall, while the Bank ensured project's strategic relevance and alignment with country needs, it was necessary to scrutinize the design of project components and the setup of implementation arrangements. The quality-at -entry is rated as **Moderately Satisfactory.**

Quality-at-Entry Rating
Moderately Satisfactory

b. Quality of supervision

Supervision was proactive, with regular biweekly or monthly meetings held with both PIUs from late 2022 onward, and close coordination with PIUs to address operational bottlenecks. The Bank's supervision and implementation support has been instrumental in maintaining development impact amid delays and shocks, and was characterized by proactive engagement, adaptive management, technical expertise, and capacity building. The Bank played a key role in facilitating the resolution of issues related to interest rate adjustments, the expansion of eligible beneficiary criteria, and the simplification of E&S procedures. The Bank also provided detailed implementation support to help the FBiH PIU, which lacked prior experience managing WB-financed operations. Key lessons include the importance of regular, hands-on supervision, early and ongoing capacity building for PIUs, transparent issue resolution, and the use of digital tools and peer networks.

The Bank's performance reporting, particularly through the Implementation Status and Results Reports (ISRs), was candid and appropriately reflected the project's evolving challenges. This included a justified downgrade of overall project implementation to *Moderately Unsatisfactory* in the October 2023 ISR. The Bank also played a proactive role in leading the restructuring process to better align the Project Development Objective (PDO) and financing terms with the changing operational context. In retrospect, the downgrade in progress toward achieving the PDO could have been considered earlier, as key indicators of underperformance had emerged prior to the formal restructuring. Moreover, the anticipated impacts of the revised Project Operations Manual (POM) and the Development Bank's commitment to achieving the original targets did not fully materialize.

The Bank's supervision effectively addressed fiduciary, safeguards, and strategic project management needs. It provided targeted, hands-on support to strengthen the implementation of the ESMS, facilitated site visits, and trained both PIUs and PFIs to ensure compliance with E&S requirements. Financial management was closely monitored throughout the project, with no significant issues identified in audits or financial reporting.

The Bank's extensive supervision and technical assistance were critical in supporting PIUs and PFIs through complex operational and procedural challenges. Regular bi-weekly or monthly meetings with the PIUs, hands-on support for procurement and financial management, and adaptations to simplify E&S safeguards procedures were useful, especially for the FBiH PIU following its several changes of staff post project approval. The Bank was responsive to emerging challenges, including revising the POM, expanding eligible beneficiary definitions, and supporting restructuring discussions. However, the complexity of the safeguard and fiduciary frameworks, as originally designed, may have been underestimated relative to local capacity, particularly for PFIs and firms unfamiliar with WB processes.

Despite the efforts to tackle implementation challenges, disbursement remained limited and component 1 underperformed. Low disbursement in the project was due to several factors: delays in loan effectiveness caused by the need for ratification by multiple governments and parliaments; changes in senior management at the Federation Development Bank, which led to execution delays; lower-than-expected demand for the line of credit due to ample liquidity in Bosnia and Herzegovina's banking system and competition from the RS Development Bank's direct lending; and market perceptions that the required environmental and social screenings were more onerous than other available credit options, despite efforts to simplify and clarify these requirements. As a result, part of the undisbursed funds was cancelled by the RS entity government, and some committed but undisbursed funds in the Federation are being refunded.

The quality of supervision is rated as MS, based on proactivity and close coordination with PIUs to address operational bottlenecks, extensive supervision and technical assistance. But the above could not solve the limited disbursement issue and the component 1 underperformance.

Quality of Supervision Rating
Moderately Satisfactory

Overall Bank Performance Rating
Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design
The Project's Results Framework was aligned with the PDO and consistent with the theory of change, but institutional uptake was delayed. The M&E design was broadly sound, with a clear theory of change linking inputs—such as credit lines and institutional reforms—to expected outcomes like MSME recovery and resilience. The Results Framework included well-aligned PDO and intermediate indicators that reflect both financial performance and policy effectiveness. Notably, the inclusion of PBCs to establish M&E mechanisms within key government ministries strengthened the potential for evidence-based learning and institutional capacity building. However, the practical implementation of the M&E system was delayed by data availability and the speed and quality of institutional uptake, particularly in ministries with limited prior experience in systematic results tracking.

The Project's experience unearthed the necessity of designing M&E systems and indicators that are both methodologically robust, but also practically feasible. Regarding the principal PDO indicator, measuring value-added required reliable, disaggregated financial data from both beneficiary and non-beneficiary firms, and accurate sectoral baselines, data that were difficult to obtain timely in the BiH context. In the end, the methodology for this indicator relied on annual sectoral data with a six-month lag, delaying performance measurement. A simpler, more direct performance indicator—such as changes in employment, revenue, or investment at the firm level—might have offered a more practical alternative. The job creation target set after project restructuring, only 55 jobs, appeared disproportionately low relative to

the scale and project ambition, this indicating lack of clarity in the interpretation and reporting of the job creation indicator, particularly following the project restructuring.

b. M&E Implementation

M&E implementation displayed mixed performance across the two implementing entities. RS MEE successfully established an M&E framework, appointed an M&E specialist, and began applying the framework to assess the performance of MSME support programs. In FBiH, while the FMDEC eventually finalized the design of its M&E system and rulebook, adoption and operationalization took longer. During implementation, both entities collected relevant output data and began integrating these into policy frameworks, signaling institutional progress in establishing data-driven program management. Project missions confirmed adherence to the E&S standards during beneficiary visits, and disbursements under PBCs were linked to demonstrable results.

While the overall approach to M&E was aligned with project objectives, methodological robustness varied. Data collection was conducted better for Component 2 (institutional support), with documentation of eligible activities and verification of outputs linked to disbursement. However, for Component 1, M&E was more limited due to delayed implementation and low disbursement. The calculation of key PDO indicators, such as firm-level value-added comparisons, was hindered by the late start of sub-loan disbursements and the unavailability of timely sectoral comparator data. While the foundations for M&E were largely put in place, the use of M&E information for adaptive project management was constrained by data gaps, capacity limitations, and timing issues.

c. M&E Utilization

M&E utilization during the project was uneven, with more effective application observed in Component 2, where performance data were used to verify achievement of PBCs and inform disbursement decisions, particularly in RS. In both entities, the establishment of M&E frameworks contributed to institutional shifts toward more data-driven program management. However, for Component 1, M&E utilization was limited due to delayed disbursements and the late availability of measurable performance data.

The overall quality of the project's M&E system is rated as Modest, reflecting shortcomings in design, and more significantly in implementation, and utilization. While the results framework included appropriate indicators aligned with the PDO, the indicator of the ratio of firm-level value-added growth was dependent on sectoral statistical data that became available only with considerable delay. Component 2 made better use of M&E systems, with data underpinning the verification of PBCs and enabling results-linked disbursement. However, in Component 1, which accounted for the bulk of project resources, the delayed rollout of sub-loans meant that performance data were not available in time to support decision-making.

Given the above achievements and constraints, the M&E performance is rated Modest.

M&E Quality Rating
Modest

10. Other Issues

a. Safeguards
The project was classified as a Category B operation, requiring the application of environmental and social screening procedures and mitigation measures for sub-projects. The project triggered the following Environmental and Social Standards (ESS): (i) ESS1 – Assessment and Management of Environmental and Social Risks and Impacts aimed to ensure that risks and impacts were identified, assessed, and managed throughout the project lifecycle, (ii) ESS2 – Labor and Working Conditions intended to make sure that the required maintenance and implementation of HR and Occupational Health and Safety (OHS) policies, including grievance mechanisms for workers, are in place, (iii) ESS9 – Financial Intermediaries: As a financial intermediary operation involving credit lines, the project was subject to ESS9, requiring all participating financial institutions (PFIs) to adopt and disclose an Environmental and Social Management System (ESMS), and (iv) ESS10 – Stakeholder Engagement and Information Disclosure aimed to mandate the preparation and implementation of a Stakeholder Engagement Plan (SEP) and establishment of grievance redress mechanisms (GRMs) for stakeholders.

The project's environmental and social safeguards implementation was robust and aligned with World Bank ESS requirements. Despite early delays and some administrative challenges, the ESMS frameworks were successfully rolled out, compliance was monitored through site visits, and no major issues arose. The experience highlights the importance of early capacity building, streamlined procedures, and ongoing support for financial intermediaries in similar credit line operations.

b. Fiduciary Compliance
Financial Management. Fiduciary capacity assessments for FBiH DB and RS IDB were conducted during project preparation. Throughout implementation, both development banks complied with WB fiduciary and reporting requirements, including timely submission of audit reports and financial statements. Both institutions managed the credit line within their mandates and regulatory frameworks, and the project contributed to strengthening their capacity in areas such as safeguard application, eligibility screening, and multi-party coordination. Overall, financial management systems were deemed adequate throughout, and all audit and financial reporting requirements were met within acceptable standards.

Procurement. Since Components 1 and 2 did not finance physical assets, traditional procurement procedures under the World Bank's Procurement Regulations for IPF Borrowers did not apply. This is explicitly stated in Section II of the Procurement Regulations. While Component 3 Project Management was subject to application of the WB's Procurement Regulations for IPF Borrowers for Goods, Works, Non-

Consulting, and Consulting Services, the component did not disburse. In sum, there was no procurement in this operation.

c. Unintended impacts (Positive or Negative)

The ICR did not point to any unintended impacts.

d. Other

The ICR did not report any other issues.

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Unsatisfactory	Moderately Unsatisfactory	
Bank Performance	Satisfactory	Moderately Satisfactory	There were shortcomings at appraisal and during implementation
Quality of M&E	Modest	Modest	
Quality of ICR	---	Substantial	

12. Lessons

The ICR identified relevant findings, lessons and recommendations presented on pages 26-27, and this review identified five lessons which are rephrased below.

Early investment in institutional capacity can help consolidation of implementation readiness and effectiveness. The Project Implementation Units (PIUs) had limited prior experience in World Bank operations and needed time to familiarize with Bank requirements and procedures but chose not to use the technical support envisaged under Component 3. This constrained early coordination with PFIs and created uncertainty around fund flows, eligibility, and safeguards, and capacity gaps emerged in fiduciary processes, E&S screening, and PFI coordination. The Bank team encouraged PIUs during supervision to activate Component 3 support, but without client uptake. Because of weaknesses in the PIUs, project implementation was ineffective. Embedding technical support

within new PIUs, particularly in institutions new to Bank processes, can accelerate learning and reduce early-stage implementation risks.

When project design is conducted with a good measure of flexibility, project implementation be adapted when internal and external shocks occur, as this is often the case in volatile environments. The project's original design centered on supporting COVID-affected MSMEs amid anticipated bank liquidity constraints. During implementation, the context shifted, and liquidity challenges did not materialize. A faster-than-expected recovery, coupled with new shocks (the Ukraine invasion, inflation, rising interest rates), reduced demand for crisis-response credit. This required multiple project operational manual (POM) amendments and, ultimately, a restructuring was initiated in late 2023 but effective only in August 2024, leaving limited time to implement revisions before closure in December 2024. Going forward, operations should build in project design formal flexibility mechanisms (for example, contingency clauses, mid-term PDO review options, and adaptive targeting criteria). Eligibility definitions should accommodate broader economic shocks rather than a single crisis event. A flexible yet focused approach helps preserve relevance and impact when initial assumptions do not hold.

For the results framework to become an effective management and monitoring tool of project implementation, the M&E design needs to pair simple, timely firm-level indicators, and M&E capacity building actions and measures. The primary PDO indicator—benchmarking value-added growth among beneficiary MSMEs against their sectors methodologically sound but was ambitious and difficult to operationalize at useful frequencies. It required sector-wide baselines, firm-level financial reporting, and advanced analytical capacity—much of which was unavailable or delayed. Moreover, M&E systems in key implementing institutions were not fully operational. Future operations require pragmatic M&E designs that pair rigorous outcome measures with simple, timely firm-level indicators. Given the use of intermediated finance, projects should include clear indicators for tracking PCM, including co-financing and follow-on lending, to better capture leverage.
A system-wide integration of M&E functions can be set as a mandatory capacity-building target.

Simplifying E&S safeguards can enhance private sector engagement. Applying the ESF proved complex and burdensome for some PFIs and MSMEs—particularly smaller firms with limited administrative capacity. At the outset, the volume and technical nature of the required documentation and procedures were perceived as disproportionate to the size and risk of many subprojects (often small equipment or vehicle loans), contributing to hesitancy among PFIs and dampening early uptake of the line of credit. Although the Bank and PIUs later simplified templates, the initial complexity had already contributed to reduced uptake and implementation delays.

Performance-based conditions can be effective tools for driving institutional reform.
Component 2, structured around disbursement-linked PBCs, delivered strong institutional outcomes: both entities' ministries adopted and funded annual action plans for digitalization, and M&E frameworks were established (and fully formalized in RS). These outcomes were directly attributable to the technical and financial incentives embedded in the PBC design. The PBC approach also sustained implementation momentum when Component 1 (the credit line) experienced disbursement delays. The clear causal link between funding and reform progress illustrates the effectiveness of this results-based modality

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is well-written and mostly in line with the OPCS guidelines. The efficacy and efficiency analysis was generally accurate, results-oriented and supported by quantitative evidence. In particular, split assessment of the efficacy performance was well done. Overall, the quality of the ICR is rated as substantial.

a. Quality of ICR Rating
Substantial