

# IEG

## ICR Review

Independent Evaluation Group

<b>1. Project Data:</b>		<b>Date Posted :</b>	03/01/2006	
<b>PROJ ID:</b>	P051310		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b>	Albania Microcredit Project	<b>Project Costs (US\$M)</b>	22.8	23.96
<b>Country:</b>	Albania	<b>Loan/Credit (US\$M)</b>	12	11.84
<b>Sector(s):</b>	Central government administration; Banking; Micro- and SME finance	<b>Cofinancing (US\$M)</b>	9.3	2.9
<b>L/C Number:</b>	C3253			
		<b>Board Approval (FY)</b>		99
<b>Partners involved :</b>	Government of Switzerland, others	<b>Closing Date</b>	06/30/2005	06/30/2005
<b>Evaluator:</b>	<b>Panel Reviewer :</b>	<b>Division Manager :</b>	<b>Division:</b>	
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## 2. Project Objectives and Components

### a. Objectives

- In rural areas, to increase farm and off-farm investment and savings services and to progressively establish a sustainable (self-financing) savings and credit association network and federation;
- In urban areas, to develop self-employment and microenterprises and to progressively establish a sustainable (self-financing) microcredit institution.

### b. Components (or Key Conditions in the case of Adjustment Loans ):

- Rural Credit and Savings Associations Network** : provision of (i) technical assistance for the establishment and extension of a private, sustainable savings and credit association (SCA) network (including the progressive development of a SCA Union) and (ii) a Line of Credit to the Rural Finance Fund to provide loans to eligible SCA for on-lending to their members (estimated costs USD 8,1 million, actual costs USD 12.26 million)
- Urban Microcredit** : provision of capacity building grants to the Besa Foundation as well as a Line of Credit for the purpose of on-lending to urban beneficiaries (estimated costs USD 13.6 million, actual costs USD 11.36 million).
- Legal and Regulatory Environment** : provision of technical assistance, training and equipment to improve the legal and regulatory environment for microfinance (estimated costs USD 0.5 million, actual costs USD 0.15 million).
- Project Management support** to facilitate project implementation and cover incremental operating costs (estimated costs USD 0.6 million, actual costs USD 0.19 million).

### c. Comments on Project Cost, Financing, Borrower Contribution, and Dates

The project was approved with a co-financing funding gap of USD 6.5 million. It was assumed that donors would bridge this gap once the institutional framework was successfully set up . While this approach seemed feasible at appraisal due to strong donor involvement in financial sector reforms, it proved difficult during implementation due to a shift in donor focus. The gap was eventually closed through an increase of counterpart funds of USD 4 million (through shifting unused funds from another World Bank Project ) and two commercial credit lines of USD 1 million each, for which the Government of Switzerland assumed the difference in interest rate to the IDA funds . The project closed on time and fully disbursed its funds .

## 3. Relevance of Objectives & Design :

The project was well embedded in the Government's and the Bank's on-going efforts to promote private sector growth, improve financial intermediation and alleviate poverty . It was based upon the experience of three earlier pilot projects (all rated satisfactory by IEG), which provided loans to rural and urban low-income groups to support the development of farm and off-farm activities and facilitated small-scale private sector development in urban areas . The project focused on creating self-sustainable financial intermediaries and establishing the necessary regulatory and legal framework to develop Savings and Credit Associations that can offer the full range of financial services, including savings services . A Japanese Grant assisted in defining the legal, institutional and financial framework for the preparation and implementation of the project .

## 4. Achievement of Objectives (Efficacy) :

- increase farm and off -farm investment and savings services, and progressively establish a sustainable SCA network (fully achieved) :**

(i) Ignoring issues of fungibility, at project closing, there were over 7,600 loans outstanding, with an average value of USD 1,845 equivalent. Over 75% of the loans were used to finance agricultural production and livestock, as well as trade and services, with the remainder being used to finance other productive purposes. Based on a beneficiary assessment for SCA member households, the disbursed loans facilitated additional land cultivation, a change in cropping patterns to higher-value crops, an increase in yields, and contributed to an increase of net income of the member households of the SCA by 61% (since 2001). The loan portfolio is performing well (portfolio at risk of 0.99% in mid 2005).]

A conducive regulatory and legal framework to supervise the activities of the micro-credit institutions was approved with project support, thus allowing the SCAs to take deposits. Up to date, over 130 Savings and Credit Unions (including those not part of the SCA network) have been licensed and SCA's started mobilizing long-term deposits (USD 1.6 million at project closing).

(ii) Up to date, 92 SCAs were created in 8 districts in Albania, reaching out to 13% of the villages in the country. Together with the SCA Union, they are able to cover the operational costs and report a net profit since 2004.

**2. develop self-employment and micro-enterprises and progressively establish a sustainable micro-credit institution (fully achieved):**

(i) Since establishment, the BESA foundation provided roughly 21,000 loans for a total amount of USD 96 million to micro-businesses and self-employed, financing mostly trade and services. Repayment of loans has been high (portfolio at risk of 1.1% in 2005). No beneficiary assessment was carried out to measure the impact of the loans.

(ii) The BESA Foundation has 9 regional Offices and 11 Branches, covering more than 50 towns. With a Subsidy Dependence Index of 33% (compared to 99% in 2003), BESA has almost achieved financial self-sustainability. It has been profitable since 2002, and was able to increase its capital base by 40% due to retained earnings.

**5. Efficiency :**

Efficiency has been substantial. In 2005, the flow of funds to rural areas from the two micro-credit institutions combined was USD 10 million, which is twice the amount of the rural portfolio of commercial banks. Outreach and financial performance indicators for both BESA foundation and the SCA Network compare favorably with micro-credit benchmarks for the ECA region and worldwide.

**6. M&E Design, Implementation, & Utilization:**

The key performance indicators were well suited to monitor progress towards achieving self-sustainability and outreach, but do not include baseline indicators to evaluate the impact of the operation on overall levels of investment in rural areas and microbusiness activities in urban areas. By providing performance based subsidies, the project set the right incentives to achieve financial independence.

**7. Other (Safeguards, Fiduciary, Unintended Impacts--Positive & Negative):**

8. Ratings :	ICR	ICR Review	Reason for Disagreement /Comments
<b>Outcome :</b>	Satisfactory	Satisfactory	
<b>Institutional Dev .:</b>	High	High	
<b>Sustainability :</b>	Highly Likely	Highly Likely	
<b>Bank Performance :</b>	Satisfactory	Satisfactory	
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	The Government fully supported the project throughout implementation and stepped in with additional financial support to bridge gaps arising from lack of counterpart funds.
<b>Quality of ICR :</b>		Satisfactory	

**NOTES:**

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- ICR rating values flagged with ' \* ' don't comply with OP/BP 13.55, but are listed for completeness.

**9. Lessons:**

The ICR review concurs with the lessons stated in the ICR itself. Two are highlighted here:

1. Adequate financing needs to be secured up-front, particularly if the financing is needed to reach a critical mass for self-sufficiency.
2. Building sustainable micro-finance institutions takes a longer time, even if preceded by earlier support for lending activities through a funding mechanism. While the later can facilitate initial outreach, the institutional and regulatory framework still needs to be developed and implemented, and different products introduced. The Bank should

consider, as it has done in other cases (i.e. Madagascar), to continue providing strategic and technical support for the healthy growth of the created structures, until they are fully financially independent and have expanded their products and outreach further.

**10. Assessment Recommended?**  Yes  No

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

The ICR is clearly written and provides valuable information on on-lending interest rates, sectoral distribution of the portfolio, the subsidy dependence of the financial intermediaries and estimated economic and financial returns . However, it would have been useful to have some information on overall levels of farm -and off-farm investment, and on the development of self-employment and microenterprises to evaluate the overall impact of the project . On a minor note, the ICR would have profited from regional and world -wide benchmarks to compare the performance . The ICR did not evaluate impact properly, but it could not do so because the PAD did not establish a baseline on which to compare the situation with and without the project.