Bosnia and Herzegovina:
(1) Support in Setting up a Deposit Insurance Agency in the Federation of Bosnia and Herzegovina
(2) Support in Setting up a National Deposit Insurance Agency in Bosnia and Herzegovina

Ex-post evaluation report

OECD sector	24030/Formal sector financial intermediaries	
BMZ project numbers	1) 2000 40 691 2) 2002 66 411	
Project executing agency	Deposit Insurance Agency of Bosnia and Herzegovina	
Consultant	./.	
Year of ex-post evaluation report	**2007**	
	Project appraisal (planned)	**Ex-post evaluation (actual)**
Start of implementation	1) 1st quarter 2001 2) 1st quarter 2003	3rd quarter 2001 3rd quarter 2003
Period of implementation	1) 1st quarter 2001 2) 1st quarter 2003	3rd quarter 2001 3rd quarter 2003
Investment costs	1) – 2) EUR 15.34 million	1) EUR 12.0 million 2) EUR 22.64 million
Counterpart contribution	1) EUR 1.78 million	1) EUR 1.78 million
Finance, of which FC funds	1) EUR 5.11 million 2) EUR 2.56 million	1) EUR 5.11 million 2) EUR 2.56 million
Other institutions/donors involved	USAID, World Bank, GTZ, US Treasury	USAID, World Bank, GTZ, US Treasury
Performance rating (both projects)	2	
• Significance/Relevance	2	
• Effectiveness	2	
• Efficiency	2	
• Impact	2	
• Sustainability	2	

Brief Description, Overall Objective and Project Objectives with Indicators

In the projects, Support in Setting up a Deposit Insurance Agency in the Federation of Bosnia and Herzegovina, and Support in Setting up a National Deposit Insurance Agency in Bosnia and Herzegovina, EUR 7.67 million was provided for both agencies as initial capitalization.

First, assistance was given to establishing the deposit insurance agency in the Federation of Bosnia Herzegovina (DIABH) amounting to EUR 5.11 million. DIABH was disbanded in October 2002 and the fund deposits and staff transferred to the new state deposit insurance agency founded for Bosnia and Herzegovina and the Republic of Srpska (DIA). This new agency, which is responsible both for the Bosnian-Croatian Federation (BiH) and for the Republic of Srpska (RS), was set up with EUR 2.56 million in assistance from German FC funds. Both projects were carried out in cooperation with GTZ, USAID, the US Treasury and the World Bank. All institutions bore a parity share in initial capitalization for the two funds totalling EUR 7.67 million. USAID also supported DIABH with EUR 0.5 million for operating costs. GTZ assigned two long-term experts to it as part of technical assistance. The costs of both projects totalled EUR 34.6 million.

The objective of both projects was to set up an operational deposit insurance scheme firmly established amongst banks and the public to mobilize more local resources and stabilize the banking sector. The overall objective was to make a contribution to building an effective financial system as a major component of future national economic development. Indicators for project objectives achievement were the participation of the banks in the deposit insurance agency, the average increase in their savings deposits, the actual insurance of insurable deposits and the avoidance of loss events.

Project Design/Major Deviations from Original Planning and Main Causes

DIA cooperates very closely with the two banking supervisory authorities in Bosnia-Herzegovina and the Republic of Srpska, carrying out joint bank audits with the banking supervisory authorities, for example. DIA is obliged to disclose information on its member banks to the central bank and supervises their risk and crisis management. As part of this, it receives all relevant data on their deposits every month, so it can respond promptly in the case of insolvency. Based on the information submitted, DIA calculates the insurance premiums to be paid by the member banks for the end of the quarter. These currently amount to 0.3% a year of the sum of all deposits, including interest payable.

DIA’s annual financial statements are drawn up on the basis of international accountancy standards and certified by an international auditor. Its total assets have increased since foundation from EUR 18.7 million (2002) to EUR 43.9 million (2006). The start-up capital provided by the external donors and the revenue accruing to DIA from insurance premiums are invested in a fund. Fund management was entrusted to Deutsche Asset Management International GmbH (DAM), a subsidiary of the Deutsche Bank in October 2002 after an international call to tender. The volume of funds has increased from EUR 16.4 million (2002) to EUR 42 million (2006). So far, income from interest from the fund has sufficed to meet DIA’s overheads. Profit after tax has increased slightly from EUR 0.1 million (2002) to EUR 0.15 million (2005).

Key Results of Impact Analysis and Performance Rating

As the projects are embedded in a pro-poor strategy, we assign them to poverty reduction at macro and sectoral level. The project afforded scope for contributing to gender equality as women and men have equal access to deposit facilities at the DIA member banks. The projects were not concerned with environmental protection and resource conservation. By helping to found a national agency, both projects ultimately made a contribution to nation building. In a summary evaluation, we assess the developmental efficacy of the project as follows:

Relevance: The projects have contributed to remedying a core problem in the financial sector - lack of confidence on the part of the population. Deposit guarantee funds make up a central element of efficient financial sectors and their organization plays a major role in national economic development as a partner country priority. The projects conformed with the current development-policy goals and priorities of the German Government for the financial sector

(Sectoral Policy Paper on Financial System Development), with poverty reduction goals (MDGs) and the developmental aims of Bosnia and Herzegovina. Another aspect is the concerted cooperation of all institutions involved. Altogether, due to these beneficial effects for the partner country, we judge the relevance of the projects as good (**Subrating 2**).

Effectiveness: All project objective indicators have been met for DIABH. At 21 institutes in 2004, the number of member banks was much higher than required (> 7); at 94%, the increase in savings deposits between 2001 and 2002 also far exceeded the target of 7% a year (DIABH was converted into DIA in 2002). No event of loss was recorded up to 2004. Not all indicators have been met for DIA, however. At the end of 2003, only 21 out of 34 banks participated in the deposit insurance fund, 13 fewer than the target, the incomplete privatization process playing a decisive part. As only banks with 90% private ownership are accepted into the deposit insurance fund, the state banks were barred access to DIA. Moreover, banks with a weak performance under banking supervisory authority oversight have not joined DIA. Also only met in part is the insurance requirement of at least 25% of generally insurable deposits, although the actual figure of 22.4% is not far removed from the target. The other objectives indicators, in contrast, have been met or exceeded. The average increase in savings deposits amounted to 40% in the period 2001-2004 (with a 10% target). There has been no run on deposits due to a bank bankruptcy so far. Altogether, we assess the effectiveness of both projects as good (**Subrating 2**).

Efficiency: The financial position of DIA is assessed as positive. Since initial capitalization from KfW and USAID of EUR 15.34 million, the volume of funds has risen as a result of member and insurance contributions to EUR 42 million (September 2006) as against insurable deposits of EUR 2.9 billion. Net interest on fund assets in the period 2003-2006 averaged about 2.5%. Income from interest has, however, sufficed to cover DIA’s overheads till now. The DIA surplus after tax increased slightly from EUR 0.1 million in 2002 to EUR 0.15 million in 2005. Altogether, we rate the efficiency of the projects as good (**Subrating 2**).

Impact: The overall objective was to make a contribution to setting up an effective financial system as a major contributory element to the future development of the national economy in Bosnia and Herzegovina. This can be regarded as achieved, as financial intermediation measured by the ratio of total assets to GDP has doubled from 41% (2001) to about 80% (end of 2005). This can also rate as a clear indication of increased confidence in the banking sector. Thanks to the monitoring of the banks by DIA and the close cooperation with the banking supervisory authorities, banking oversight has improved as a whole. The political aspect also merits affirmative mention: After the central bank, DIA is the leading agency in the financial sector at national level, which is outstanding in the difficult political climate in Bosnia and Herzegovina, and has contributed to peacebuilding and political stability in the post-war situation. As the first deposit insurance agency in the region, it also sets an example for other countries. Without the implementation of the projects, DIA would not have been founded as early as 2001 and could not in particular have made a timely contribution to confidence-building measures in the financial sector after the war. Altogether, we assess the developmental impact as good (**Subrating 2**).

Sustainability: In the long run, DIA will be able to sustain the beneficial net impacts of the developmental measures without support. Thanks to the financial stability of the deposit insurance fund, no further capitalization from donors will be needed. We anticipate that the project objectives will continue to be attained in future, too. Based on the sound financial development of DIA to date and the relevant framework, the overall objectives can also be expected to be attained in future, too. As regards the financial and banking sector, the developmental setting is stable. Special risks for efficiency could be posed by an overhasty adjustment of the sum insured to EU standards. When KfW and USAID withdraw from the supervisory board, the political influence on DIA could also increase, jeopardizing the autonomy and credibility of the agency. We classify the sustainability of the projects as good (**Subrating 2**).

Accounting for all the above impacts and risks, on the basis of the evaluation criteria, we assess the overall performance of the projects as good (**Rating 2**).

General Conclusions

Deposit insurance funds are generally a major factor in dynamic financial sector development, since they make an important contribution in particular to protecting inexperienced small savers and to stabilizing the banking system. Increased confidence on the part of small savers results in a higher rate of saving and a broader refinance base by mobilizing private savings not yet invested in the banking system. Major factors for establishing a deposit insurance fund are political independence, transparent and detailed legislation, financial sustainability and active public relations to raise awareness amongst savers and banks. In politically unstable countries, donor membership in the supervisory body makes an important contribution to ensuring the independence of the deposit guarantee corporations.

Deposit insurance legislation should clearly define the rights and duties as well as the organizational and operational structure of a deposit insurance fund. The depositor guarantee system should have right of access to the banks at any time. On the one hand, this authority ensures bank supervision and speedy depositor compensation on the other. The scope of the deposit insurance mandate should be in keeping with national development.

The contributions of the banks provide an important source of finance for the financial sustainability of deposit guarantee schemes. The calculatory basis for the contributions and the rates of contribution has to be defined clearly and the method should be fair and transparent. The fund’s assets must be invested at low risk in gilt-edged securities to avoid losses. The requisite funds must also be readily available in the event of loss and the individual sequences of steps for compensation should be defined clearly.

The sum insured should be adequate for the scope of protection in keeping with the national economic situation. An excessive securitization limit can endanger the financial sustainability of the fund, but an inadequate scope of protection would have little effect on the financial sector.

Cooperation between the deposit insurance agencies and the central bank/banking supervisory authority plays a considerable role in consolidation processes. Moreover, a clear allocation of tasks between the banking supervisory authority and the deposit insurance agencies is important to avoid dual oversight.