

**Kosovo: Assistance to the Small Lending Programme of the MEB in Kosovo**

**Ex-post evaluation**

<b>OECD sector</b>	24030 – Formal sector financial intermediaries	
<b>BMZ project number</b>	MEB I: 1999 66 367 MEB II 2000 40 535 Personnel assistance (T) 19300 21 44	
<b>Project executing agency</b>	Micro Enterprise Bank (MEB) Kosovo	
<b>Consultant</b>	International Project Consult (IPC)	
<b>Year of evaluation</b>	<b>2003</b>	
	<b>Project appraisal (planned)</b>	<b>Ex-post evaluation (actual)</b>
<b>Start of implementation</b>	IV quarter 1999 (MEB I) II quarter 2000 (MEB II)	IV quarter 1999 (MEB I) II quarter 2000 (MEB II)
<b>Implementation period</b>	2 years	1 ½ years
<b>Finance, of which FC funds</b>	1.02 million EUR (MEB I) 1.53 million EUR (MEB II) 0.46 million EUR (T)	1.02 million EUR (MEB I) 1.53 million EUR (MEB II) 0.46 million EUR (T)
<b>Other institutions/donors involved</b>	EBRD, FMO, IMI, IFC, Commerzbank	
<b>Performance rating</b>	1	
<b>• Significance/Relevance</b>	1	
<b>• Effectiveness</b>	1	
<b>• Efficiency</b>	1	

**Brief description, overall objective and project purpose with indicators**

The project purpose was the sustainable provision of basic financial services for the private sector in Kosovo. The indirect target group were private micro (1-20 employees) and small businesses (20-200 employees) including farming enterprises with fixed assets of up to EUR 127,823. This was intended to contribute to the economic development of the region and to deepening the financial system in Kosovo (overall objective).

**Project design/Major deviations from original project planning and their main causes**

No major deviations.

## **Key results of impact analysis and performance rating**

The indicators defined for project objectives were all met or exceeded:

- Time for international transfers < 7 days (actual: 2 days)
- Portfolio at risk > 30 days below 5% (actual: 0.16%) with total arrears amounting to only 0.47%
- Size of loan portfolio EUR 5.11 million, actual: EUR 18.2 million (08/2002)
- At least 3,000 account holders (MEB I), at least 10,000 account holders (MEB II): actual: 99,042 current, 2,460 savings and 5,022 time-deposit accounts (08/2002)
- Breakeven point reached at the end of 2002 (MEB I): By the end of 2003, the MEB reached complete cost recovery - including the management and training costs borne by the donors till then: (MEB II), actual: breakeven point already attained in March 2000, full cost recovery by the end of 2000.

Compared with empirical figures in other countries, the choice of indicators was appropriate, the overreach was quite unforeseeable at the time of project appraisal and considering the uncertainties in the country by no means self-evident.

As to overall objective achievement, depending on the depth of vantage point, a distinction must be drawn between the evident project impacts (deepening the financial system) and the supposed project impacts (contribution to economic development), for all the indisputable plausibility. Certainly, the financial system has been deepened and an impetus has also been given to a rapid buildup of a banking system: At the time of project appraisal, there were no facilities in Kosovo to hold a bank account or make transfers. For over one year after startup on 24 January 2000, the MEB was the only formal financial institution and today it is by far the largest provider of financial services in Kosovo. The MEB was the first to facilitate transfers of funds at home and abroad and provide a safe financial investment and credit in the country for locals and returning ex-pat Kosovars.

In assessing the contribution to economic development, it is plausible to assume that by deepening the financial system the bank has also made an extremely significant contribution to economic development. The target group of small and medium-sized enterprises was reached with an average loan amount of EUR 5,000. As part of a target-group analysis conducted in the runup to the ex-post evaluation, 119 small businesses, some with and some without an MEB loan, were interviewed. Altogether, the borrowers recorded a distinctly higher increase in sales and profits and created more jobs than the control group. After taking out a loan, 91.5% of MEB clients recorded a higher net income. 53% of the borrowers questioned stated that they would have had to close or downsize their businesses or forego the investment altogether without the MEB loan. Only 47% would have been able to resort to alternative finance either from personal resources, family members or another institution. If we extrapolate this statement for the total

number of loans granted, we would arrive at no fewer than about 2,800 cases that would have been adversely affected in this way, far from insignificant given nearly 44,000 registered small businesses. We can therefore infer from this that the overall objective of contributing to economic development (significance) has been achieved as concerns lending facilities for SMEs and the other banking services.

In the measures for personnel assistance worth EUR 0.46 million, MEB personnel were given a thorough practical training. Only 20 months after its foundation, the MEB already employs over 234 local staff. Almost all the middle management as well as some members of the executive board are Kosovars.

Altogether, the project purpose and overall objective were clearly achieved and the measures in personnel assistance have also proved to be very successful. The early foundation in a difficult political climate and the highly successful business record – breakeven after only 4 months of business - stimulated the foundation of other financial institutions. With altogether 5,669 business loans issued, over 100,000 savings accounts opened and some 50,000 transfers annually – up to August 2002 international transfers amounting to approximately EUR 1 billion – the MEB has made a substantial contribution to deepening the financial system and to economic development in the Kosovo region.

The bank works efficiently overall and its lending technology and customer service are viewed as exemplary. It was the first bank to introduce cash dispensers, for example. Despite thorough appraisal, the loans are granted in within a few days only. Thanks to its good service and product innovation, the bank has also contributed to the qualitative extension of the sector. Due to their high qualifications, some of the trained staff have been solicited by others bank and various banks have entered into competition with MEB. The desired demonstration effect on the financial system was successful.

For the most part, the lending programme has had a favourable effect on business earnings and contributed to economic growth in the region. Being able to transfer money via MEB and hold deposits with it means that businesses can substantially lower their transaction costs.

Risks for the project are still posed by a possible deterioration in the political and economic climate, which could have an adverse effect on the business climate and hence on MEB. Another risk is the unsettled issue of converting so-called socially-owned enterprises, which make up a political power factor that is averse to economically rational but possibly painful solutions. Since a healthy economic development, especially in industry, cannot be sustained

on the basis of the small business sector alone, finding a satisfactory answer to this question is the key to the future development of the country.

We assess the developmental effectiveness of the project as a whole as follows:

Considering the high level of objectives achievement we attribute to the project a very high degree of **effectiveness (Subrating 1)**.

The project has had structural impacts on the SME and the financial sector as well as on national economic development in Kosovo. By providing access to formal lending for a large number of SME and by providing basic financial services (payments transfers, deposits) to large parts of the population, it makes a significant contribution to economic development. We thus assess the **significance and relevance** of the project as **very high (Subrating 1)**.

MEB's loan portfolio is managed efficiently. The portfolio at risk is very low. The productivity of staff is satisfactory for the bank's level of development and ought to improve in the medium term. Financial assistance from development funds of altogether EUR 6 million has generated a multiple figure in loans (EUR 44.6 million) and mobilized deposits worth EUR 260 million. Technical assistance from all donors amounted to EUR 1.68 million. Altogether then, the results of MEB have been achieved with a relatively small input in development funds. The **efficiency** overall is **high (Subrating 1)**.

Altogether, the developmental effectiveness of the project can therefore be rated as **very high (Rating 1)**.

#### **General conclusions applicable to all projects**

Unlike many microfinance institutions, the bank has very quickly started to focus on other classic banking functions apart from lending. This was accounted for in the appraisal report with appropriately worded indicators. There is, however, a danger that too much weight is attached to lending components when assessing the performance of microfinance institutions and other major functions (savings, transfer payments) are overlooked. It would, for example, have been sensible in MEB's case to have the impacts of other banking services measured in the impact study conducted, instead of just lending.

In view of the liquidity surpluses at the MEB Kosovo and the refinance problems of other microbanks greater stress should in future be placed on adopting a regional approach to enable a liquidity balance beyond national borders and/or project parameters.

## Legend

Developmentally successful: Ratings 1 to 3

Rating 1 Very high or high degree of developmental effectiveness

Rating 2 Satisfactory degree of developmental effectiveness

Rating 3 Overall sufficient degree of developmental effectiveness

Developmental failures: Ratings 4 to 6

Rating 4 Overall slightly insufficient degree of developmental effectiveness

Rating 5 Clearly insufficient degree of developmental effectiveness

Rating 6 The project is a total failure

### Criteria for the Evaluation of Project Success

The evaluation of a project's "developmental effectiveness" and its classification during the final evaluation into one of the various levels of success described in more detail below concentrate on the following fundamental questions:

- Are the **project objectives** reached to a sufficient degree (aspect of project **effectiveness**)?
- Does the project generate sufficient **significant developmental effects** (project **relevance** and **significance** measured by the achievement of the overall development-policy objective defined beforehand and its effects in political, institutional, socio-economic and socio-cultural as well as ecological terms)?
- Are the **funds/expenses** that were and are being employed/incurred to reach the objectives **appropriate** and how can the project's microeconomic and macroeconomic impact be measured (aspect of **efficiency** of the project conception)?
- To the extent that undesired (**side**) **effects** occur, are these tolerable?

We do not treat **sustainability**, a key aspect to consider for project evaluation, as a separate category of evaluation but instead as a cross-cutting element of all four fundamental questions on project success. A project is sustainable if the project-executing agency and/or the target group are able to continue to use the project facilities that have been built for a period of time that is, overall, adequate in economic terms or to carry on with the project activities on its own and generate positive results after the financial, organizational and/or technical support has come to an end.