Ex Post-Evaluation Brief
Montenegro: Establishment of a Deposit Insurance Fund

Programme/Client	Support for the Deposit Insurance Fund of Montenegro - BMZ ID 2005 65 457	
Programme executing agency	Deposit Insurance Fund of Montenegro	
Year of sample/ex post evaluation report: 2011*/2011		
	Appraisal (planned)	Ex post-evaluation (actual)
Investment costs (total)	EUR 2.5 million	No change
Counterpart contribution (company)	EUR 0.5 million	No change
Funding, of which budget funds (BMZ)	EUR 2.5 million	No change

* random sample

Project description: With an initial capitalisation of EUR 2.5 million, the project aimed at enabling the newly established deposit insurance fund to rapidly provide a genuine, effective safeguard for deposits at banks in Montenegro, without burdening the Montenegrin national budget or the local banks with inordinate contributions for startup finance. The complementary measure was intended to support the deposit insurance fund as project executing agency in establishing procedures and rules, to qualify personnel and to ensure the fund sustainability.

Objective: The overall objective was to make a contribution to developing a functional financial system as a major element for the future economic development of Montenegro. The project objective was to build confidence in the banking system through a functional deposit insurance system and to attract private savings. This was to strengthen the banking system as a whole by providing it with a broader basis for refinancing.

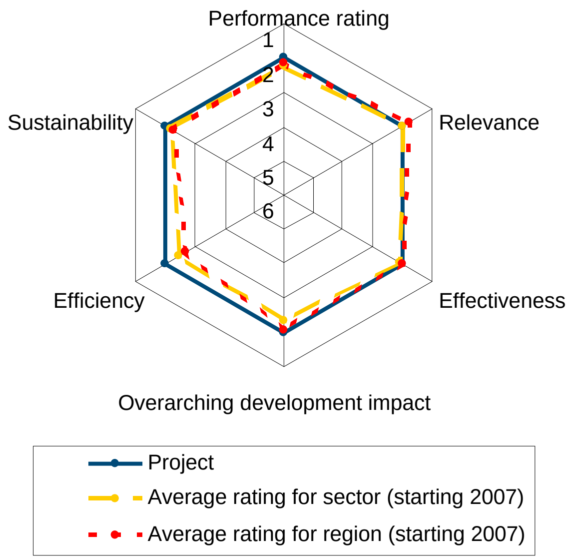
Target group: Small savers (also small and micro enterprises) with little previous access to productive and safe savings deposits, indirectly Montenegrin banks through improved refinancing facilities and the whole economy, which benefits from a functional financial system.

Overall rating: 2

Good implementation of the fund, objective indicators met and in part even exceeded, need for further development through the introduction of risk-based contributions by the banks and better public relations

Of note: As a survey in Montenegro has shown, there is little public awareness of the deposit insurance fund. More focused public relations would have been helpful for the project.

Rating by DAC criteria



EVALUATION SUMMARY

Overall rating: The project was implemented in a professional and purposeful way, although some further improvements (introduction of risk-based premiums for the banks) appear to be necessary in future. The objectives set have been reached overall, despite the interim financial market crisis. Individual objective indicators were substantially exceeded. **Rating: 2**

Relevance: Montenegrins have had little trust in their own banking system in the past. The main reasons are two phases of hyperinflation that the country suffered in the nineties of the last century. To facilitate (financial) wealth formation in the population and also generate interest income, confidence must be restored in the banking system so that the incentives for additional (interest) income outweigh the risk of losing the deposits in a banking failure. At the same time, this can also create a local source of refinancing for the banks to lessen their dependence on the respective (foreign) parent companies. A deposit insurance fund can make a major contribution in both areas. Other donors, such as USAID, World Bank and IMF, have helped strengthen and stabilise the banking sector and improve value added. The project thus complemented these measures. It was in keeping with the goals of the government of the partner country, which attaches high priority to economic development promoted by a functional financial system. The project was/is also aligned with the current development-policy objectives and priorities of the Federal Government for the financial sector and it has the potential to support the Millenium Development Goals (MDG) (Sub-Rating: 2).

Effectiveness: All project objectives were achieved. The indicator for the development of deposit amounts, the ratio of all time and savings deposits to GDP, already amounted to 56.7% at the end of 2009 and currently equals 57.56%. The target figure of 40% by 2011 has therefore been well exceeded (project appraisal 2005: 29%). The target ratio of personal time and savings deposits to GDP of 20 per cent by 2011 was already surpassed at the end of 2009 at 24%. It currently amounts to 20.8% (2005: approx. 10%). The deposits of small savers with less than € 5,000 increased from € 34.3 million (in 2005) to € 207.6 million in the third quarter of 2010, well in excess of the required 10%. The fund coverage ratio has developed very well and at 9.37% in September 2010 already exceeded the required ratio of 5% by 2015. The ratio of personal time deposits currently amounts to 36.14%, well above the target of 20%. It cannot, however, be ascertained with certainty whether this development is predominantly attributable to the fund and the trust established in the population. A survey conducted in 2008 revealed that the fund was only known to a quarter of the population. Nevertheless, we can conclude that the project was successful measured by its objective indicators (Sub-Rating: 2).

Efficiency: The financial position of the Deposit Insurance Fund of Montenegro (DPF) can be assessed as good. Due to the dynamic development of deposits at the banks, revenue has also grown quickly and would be enough to cope with quite substantial claims (such as the bankruptcy of the third-largest bank) on the Montenegrin banking system. This record to date indicates that DPF will also develop well in future. The amount insured per depositor already currently amounts to € 20,000, will increase to € 35,000 next year and after that to € 50,000. The initial capitalisation made a decisive contribution to this favourable development; without it, wealth accumulation would presumably have proceeded more slowly. The complementary measure conducted by an experienced consultant in this field helped train operatives properly and frame consistent procedures and rules. DPF has no powers of its own to supervise the participant banks and currently simply acts as a payment agency. Considering the very small size of the country and accounting for the good banking supervision in Montenegro, this is acceptable for efficiency. The banks have paid no risk-based premiums till now, but this has not had adverse consequences so far. It can, however, be seen as a weak point in the structure of the fund that needs to be remedied in future. For the above reasons, we assess allocative efficiency as good overall (Sub-Rating: 2).

Overarching developmental impact: The overall objective of the project was to make a contribution to establishing a functional financial system as a major element for future favourable economic development in Montenegro. The defined overall objectives have been reached and are also sustainable. Time deposits, for example, have increased relative to cash and sight deposits as planned: 2005: 134%, 2010: 193% and currently 161.1%. In the same period, credit volume also increased relative to GDP from 23 per cent to 77.5%. The ratio currently amounts to 64.08%. However, Montenegro is still suffering from the effects of the economic crisis, which caused a major setback after the previous years of strong growth. The national economy has been slow to recover. In the aftermath to the crisis in 2009, total loans granted are still on the decline, though at a slower rate. This holds in particular for loans to legal entities. Personal loans are on the rise, however, which indicates a development in the small enterprise sector. This can help stabilise the economy in the long term (Sub-Rating: 2).

Sustainability: The financed measure can rate as sustainable, as stable capacities have been built up in DPF on the one hand and the fund's assets have increased quickly on the other. Also thanks to this favourable development, DPF evidently intends to raise the guaranteed amount per depositor to € 50,000. Close cooperation with the central bank will also ensure the stability of the set of instruments created. The defined overall objectives can be expected to be achieved in future also. Even though no current information is available on how well known the fund is among the population, its reputation will presumably increase and may also raise public confidence in the banking system (Sub-Rating: 2).

Notes on the methods used to evaluate project success (project rating)

Projects (and programmes) are evaluated on a six-point scale, the criteria being relevance, effectiveness, efficiency and overarching developmental impact. The ratings are also used to arrive at a final assessment of a project's overall developmental efficacy. The scale is as follows:

1	Very good result that clearly exceeds expectations
2	Good result, fully in line with expectations and without any significant shortcomings
3	Satisfactory result – project falls short of expectations but the positive results dominate
4	Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results
5	Clearly inadequate result – despite some positive partial results, the negative results clearly dominate
6	The project has no impact or the situation has actually deteriorated

Ratings 1-3 denote a positive or successful assessment while ratings 4-6 denote a not positive or unsuccessful assessment

Sustainability is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability) The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability): The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The overall rating on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Ratings 1-3 of the overall rating denote a "successful" project while ratings 4-6 denote an "unsuccessful" project. It should be noted that a project can generally be considered developmentally "successful" only if the achievement of the project objective ("effectiveness"), the impact on the overall objective ("overarching developmental impact") and the sustainability are rated at least "satisfactory" (rating 3).