Ex post evaluation – Tunisia

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Sector: Financial sector (24030)
Programme: MSME Finance for Employment Promotion Programme (BMZ No. 2011 66 883) and complementary measure (2011 70 299)
Implementing agency: Three Tunisian commercial banks

Ex post evaluation report: 2020

All figures in EUR million	Project (Planned)	Project (Actual)	CM (Planned)	CM (Actual)
Investment costs (total)	50.00	50.00	1.50	0.40
Counterpart contribution	0.00	0.00	0.00	0.00
Funding	50.00	50.00	1.50	0.40
of which BMZ budget funds	50.00	50.00	1.50	0.40

*) Random sample 2019

Summary: In the course of this project, a EUR 50 million line of credit was provided to three partner banks to support micro, small and medium-sized enterprises (MSMEs). These financial sector promotion efforts fall under the category of "economic and employment promotion", addressing the lack of capital resources for Tunisian MSMEs – one of the key problems for the Tunisian economy, which stems in part from deficiencies in the Tunisian financial sector.

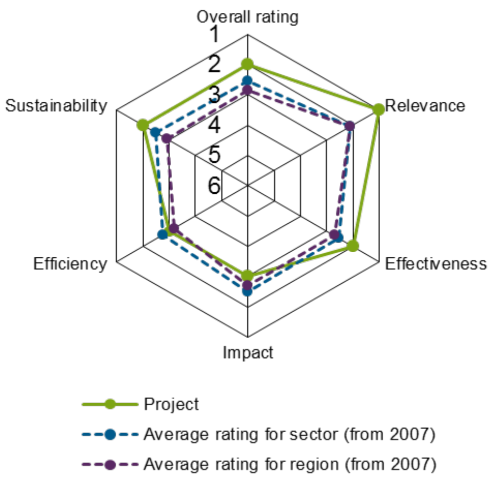
Objectives: The programme objective (impact level) was two-fold: 1) to reduce poverty in the long run by creating and safeguarding jobs, and 2) to expand and deepen the Tunisian financial sector. The need to reduce the very high unemployment rate is one of the most urgent problems that the Tunisian government is attempting to tackle. Since MSMEs provide a large proportion of jobs in Tunisia, they are hugely important in both economic and social terms. Consequently, facilitating access to financial services is part of the Tunisian development strategy. The module objective (outcome level) was to ensure the sustainable provision and use of a range of needs-based financial services for MSMEs at the three partner banks.

Target group: The project's target group were Tunisian MSMEs, which would be given the opportunity - above all through access to capital – to expand their business activities and generate additional income. Employees, employees' families as well as suppliers were also intended to benefit indirectly from the project.

Overall rating: 2

Rationale: In total, 600 Tunisian MSMEs benefited from the credit line provided. At the same time, the partner banks received targeted consulting services through the complementary measure to help them better tailor their range of services to the MSME sector. The close cooperation with the banks (including at senior management level) strengthened these institutions in their commitment to serving this target group, as well as raising awareness for necessary changes. This first phase laid the foundations and generated a number of valuable experiences that can now be built on for the much more extensive second phase.

Highlights: Overall, the three partner banks have made very positive remarks about the CM and repeatedly highlighted the value added by the consultant's advisory services.



Rating according to DAC criteria

Overall rating: 2

Ratings:

Relevance	1
Effectiveness	2
Efficiency	3
Impact	3
Sustainability	2

Relevance

From a social and economic perspective, the MSME sector is highly important in Tunisia. More than 95% of all private-sector firms are micro and small businesses. These firms employ close to 60% of registered employees in the private sector,[1] a number that increases significantly when jobs in the informal sector are factored in. At the same time, even eight years after the revolution in 2011, the economic situation remains tense. The nation remains in a state of upheaval, with its structural reform process still to be completed. The agricultural sector continues to be highly important for the country, including for exports (e.g. dates, olive oil). The steady devaluation of the Tunisian dinar in recent years, the resulting inflation and interest rate increases, as well as rising raw material prices have even led to a further deterioration of the economic situation and the associated situation on the labour market. The average unemployment rate across the country currently stands at 15% and even rises to 36% among young people (15–24 years of age). In rural areas the figures are even higher.. Against this background, efforts to promote MSMEs will play a pivotal role in improving the labour market situation.

However, Tunisian MSMEs' access to adequate financial services is severely limited. At the time of project conception(2013), lending to the MSME segment accounted for only 15% of all bank loans. On the one hand, this is due to the fact that MSMEs are often not sufficiently formalised and do not have sufficient, acceptable collateral to meet the requirements of the banking sector. On the other hand, to date the banks have largely lacked products, processes (e.g. in risk analysis) and credit technologies tailored to the MSME segment in order to serve this customer segment in line with their needs. In addition, a sometimes rigid regulatory framework and persistent liquidity shortfalls magnify the difficulty of the situation. Tunisian banks only have very limited access to medium- or longer-term funding sources and are mainly funded through short-term customer deposits.

To address the core problem – the lack of capital resources for Tunisian MSMEs – FC provided a EUR 50 million subsidised-interest loan to the Republic of Tunisia, which was extended to the MSMEs through three previously selected partner banks. In addition, EUR 1.5 million were allocated to a complementary measure. This was intended to support the partner banks in setting up and expanding their MSME business by providing targeted consulting services, as well as enabling the MSMEs to become bankable and introducing them to the formal banking sector via suitable workshops on these topics.

The chain of impact of the FC measure was to contribute to improved access to debt capital through the sustainable provision and use of a needs-based range of financial services, allowing Tunisian MSMEs to further expand their business activities. As a result, the overarching developmental objective was two-fold: 1) to sustainably reduce poverty by creating and safeguarding jobs, and 2) to expand and deepen the Tunisian financial sector. At the same time, the complementary measure was intended to expand capacity at the partner banks and among MSMEs. In our assessment, the interdependent impact assumptions underpinning the project design are considered appropriate.

The target group were Tunisian MSMEs, which were to be given access to capital to expand their business activities and generate additional income. Their employees and families were also included as indi-

[1] INS Répertoire National des Entreprises, Edition 2019: http://www.ins.tn/sites/default/files/publication/pdf/RNE-2019-web2.pdf.

rect beneficiaries. The partner banks were chosen based on a transparent selection process, including criteria such as the size and scope of their branch network, along with their willingness to open up business to the MSME segment. Two private commercial banks and one state-owned bank with an agricultural focus qualified in the course of this selection process.

From today's perspective, the project is still in line with the priorities and the development strategy of Tunisia, which are reflected in the current five-year plan (Plan Stratégique de Développement 2016–2020). The project was a very sensible accompaniment to concurrent FC measures (TunInvest, SANAD) and development measures from other donors (e.g. IMF, World Bank, EIB, ADB, AFD). From the German perspective, the project is in line with the Federal Ministry for Economic Cooperation and Development's (BMZ) sectoral strategy paper on financial system development, with its approach fitting seamlessly into the current reform agenda for the Tunisian financial and banking sector. Thanks to its reform-oriented approach, Tunisia was one of the first African countries with which the German Federal Government adopted a reform partnership in 2017 within the framework of the "Compact with Africa" initiative.

The strengthening of the Tunisian financial sector and the promotion of a sustainable private sector - through the provision of refinancing funds and technical complementary measures - are thus still of the highest political and economic relevance today.

Relevance rating: 1

Effectiveness

During the project appraisal, "the sustainable provision and use of a range of needs-based financial services for MSMEs at the three partner banks" was defined as the module objective (objective at outcome level). The performance indicators adopted in this context were largely achieved during the implementation of the project, although they are not fully measurable:

Indicator	PA target value	Ex post evaluation
(1) The funds provided are fully utilised four years after the partner banks sign their contracts.	EUR 50 million	Target achieved
(2) The share of non-performing loans in the MSME portfolio of the partner banks (NPL rate), developed after the contract signing, does not exceed 5%.	<5%.	Partner banks do not systematically keep track of this indicator; self-reported information indicates that it was only partially achieved.

All in all, thanks to the favourable loan terms (interest rates, repayment periods, grace years), the banks did not have any difficulties marketing the credit line and extending it to selected ultimate borrowers (MSMEs) in line with the criteria defined. The project did not have a particular geographic or sectoral focus. Due to the increased risk they posed, the only parties not included were start-ups and MSMEs in financial difficulties (according to the BCT's classification). It was also decided that the average amount loaned to the banks was not to exceed the TND 400,000 mark (approx. EUR 125,000). Aside from these restrictions, the partner banks had relatively high flexibility to issue loans to MSMEs (defined as companies with up to 200 employees).

One of the factors contributing to the achievement of the objectives was the fact that lending was not limited to investment loans. The banks were also able to use the refinancing funds to issue working capital loans, which were in high demand due to the tense economic situation. This enabled MSMEs to compensate for liquidity shortfalls, ensuring that their ongoing business operations could be financed in spite of the weak economy.

In hindsight, the NPL target achievement indicator appears not to have been the most suitable choice, as there was no systematic data collection on the percentage of non-performing loans in the overall MSME portfolio after the contract signing. Apart from that, there is no uniform approach to customer segmentation across the three partner banks, which would have greatly limited this metric's informative value and comparability, even if data had been available.

In retrospect, the 5% maximum figure used for the target achievement indicator appears relatively ambitious, especially considering the original situation in the banking sector and economic trends in recent years (currency decline, inflation, interest rate increases, increase in commodity prices). In the Tunisian banking sector, the average NPL rate – measured using the 90-day portfolio at risk (PaR 90) relative to the overall portfolio – stood at 15.6% in 2014 (2015: 16.6%). This rate rose to 37.6% in the rural sector. We can assume from this that the figures for the even riskier MSME sector were even higher than these average numbers.

According to their own statistics, the two private partner banks met the pre-set target for their new business portfolio, while the state-owned partner bank (with a pronounced agricultural focus) did not. However, there is no systematically collected, verifiable data.

The activities planned under the complementary measure began in July 2016, 18 months after the financing agreement was signed. As a result, the measures that had originally been envisaged could only be partially implemented and had virtually no direct influence on the loans extended via the FC funding. Regardless, there was no avoiding this delay, which primarily stemmed from the relatively lengthy international public tendering process to award contracts for consulting services. During the first phase, the complementary measures were not intended to be carried out at the same time as the credit was extended. However, this is due to occur in the subsequent phase.

The technical support was eventually rolled out with a diagnostic phase, in which individual action plans were drawn up with each partner bank. This was followed by a 15-month implementation phase to address the previously identified issues in a targeted manner. In total, 25 bank branches participated in pilot projects, in which the practical approach recommended by the consultant was tested in practice. Employees from the branches received specific training in this context.

However, the time available was far from sufficient to fully support the partner banks in all relevant topics and to initiate and implement necessary change processes across the banks. Due to the lack of time, the complementary measure focused on providing technical support to the banks and their downscaling activities (i.e. adjusting their business processes to smaller loan volumes or enterprises). The advisory services and support for the MSMEs, intended to introduce them to the formal banking sector, were not provided during the project's first phase. However, a second phase is currently in preparation, which will focus more strongly on the MSMEs themselves. Nevertheless, during the phase that has now been completed, a representative survey of 500 MSMEs was conducted. This is already helping the banks to better understand the needs and challenges of MSMEs, as well as underlining the need to better adapt to this target group. In the course of the study, 92% of the MSMEs surveyed stated that they wanted to invest in their company in order to further expand their business activities.

Even if the extent of the complementary support/consultancy services and the rate of non-performing loans fell short of the originally defined objectives, what has been achieved is fully in line with what could be expected from this first phase. The credit line was disbursed as planned andreceived by the target group.

Effectiveness rating: 2

Efficiency

The FC funds were invested through the project in a sector with high potential for development. The specifically selected partner banks used already existing structures to ensure that the funds were on-lent quickly and efficiently. These institutions met the selection criteria thanks in part to their extensive branch networks and their interest in expanding their MSME business. All three banks already served micro and small businesses before the programme started. However, there was not a clear strategy for this customer segment, nor were there specialised departments/customer advisors or adapted products and processes. This notwithstanding, the partner banks all signalled that they were more than willing to make changes to better suit this customer segment.

The credit line was disbursed on schedule, then passed on accordingly by the partner banks to the final borrowers. At the end of 2018, four years after the contracts were signed (see also target achievement indicator above), there was still a small discrepancy in sub-loan disbursement. Although all the loan agreements had been fully concluded by this time, the ultimate borrowers still experienced minor delays in receiving the funds. In addition, a small number of loans had to be replaced after being reviewed by the auditor, as these did not fully meet the credit line criteria.

The Tunisian government's willingness to assume the foreign exchange risk, which guaranteed the banks a fixed interest rate and funding in the local currency, was a decisive factor in the project's success. The continuing depreciation of the Tunisian dinar and the ensuing, constant increase in the Tunisian reference interest rate (TMM) made the credit line increasingly attractive to the banks (and, in turn, to the final borrowers) during the project compared with other refinancing sources.

The default risk in relation to the sub-loans was fully assumed by the partner banks. They were independently responsible for ensuring that the loan terms adopted were appropriate and risk-adequate. However, as mentioned above, the efficiency of the Tunisian banking sector still leaves much to be desired despite noticeable improvements – as was evident in the relatively high loan default rates. The NPL rate (PaR 90 relative to the overall portfolio) still stood at 13.9% as of 2017. The two private partner banks were below this average figure in 2017. The state-owned bank exceeded the average, though this is partially explained by the history of the institution, which historically served the public sector in addition to its agricultural focus and is to some extent relativised by the fact that the bank has made good progress in recent years despite the difficult economic situation.

In the purely FC-funded MSME portfolio, the banks' own figures state that loan default rates were significantly below this average number (and, in two cases, even fell below the above-mentioned 5% mark). As a result, the production efficiency can still be rated as satisfactory.

The credit line was predominantly used to serve the partner banks' existing customers. New customer acquisition has been limited due to the very high demand from existing customers, some of whom had never obtained a loan. Nonetheless, the MSME target group was reached via the partner banks (allocation efficiency), with 600 MSMEs – including some highly innovative and future-oriented enterprises – receiving financial support during the project, helping them to both safeguard and create jobs.

As mentioned above, the technical complementary measure started late due to a delay, which meant that there was no direct relationship between the implementation of the credit line and the advisory services provided by the consultant. Only a third of the funds originally available (EUR 1.5 million) for the technical complementary measure were spent during the project period. However, the consultant implemented the series of measures agreed with the banks highly efficiently and on schedule, and it is beyond dispute that the consulting services added value. The issues that could not be addressed during the first phase were taken into account accordingly – including from a financial perspective – in the planning for the subsequent phase and the description of services to be provided by the consultant.

Overall, the project's efficiency during this first phase can be rated as satisfactory.

Efficiency rating: 3

Impact

In the project conception the sustainable reduction of poverty through the creation and safeguarding of jobs and the expansion and deepening of the Tunisian financial sector were defined as programme objectives. In total, 600 MSMEs were promoted during the project, with an average loan amount of EUR 83,500. The main beneficiaries of the FC funds were companies from the industrial, retail and service sectors. In the case of the state-owned bank, 50% of the loans went to the agricultural sector. During the project's first phase, there was no systematic accounting of the number of existing jobs preserved and new jobs created by the banks. However, we can assume that the FC funds played a very positive role in this effort.

The granting of working capital loans was also particularly relevant in this context. Even if these do not directly result in the creation of new jobs, they nevertheless make a decisive contribution towards the financial stability of these businesses, helping to safeguard jobs and make investments possible at a later time.

As mentioned above, the credit line was primarily used to finance existing customers of the partner banks. The project only reached a very small number of MSMEs that are not yet familiar with the formal requirements of the banking sector or have not yet met these requirements. The decision to first meet the demand of existing customers is understandable in view of the fact that the banks are currently striving to improve their portfolio quality, indicating a risk-averse stance from these institutions. Further developing the MSME-specific approach in the banks (e.g. with regard to a more targeted risk analysis of this customer segment) and at the same time introducing MSMEs to the banking sector through workshops and training courses remains a challenge for the second phase of the programme.

The FC funds made available helped to strengthen the Tunisian financial sector. However, the EUR 50 million provided was not nearly enough to meet the high levels of demand, nor to fully utilise the partner banks' potential capacity. Nonetheless, there have clearly been positive impacts on the Tunisian economy. These have been reinforced by the expanded approach of the MSME II programme, which builds directly on this first phase.

This first phase should also be seen as more of an initial step in terms of the consulting services. In the short time available, it was not possible to implement all necessary changes in the three partner banks.. Still, the consultant was able to increase the banks' awareness of the MSME segment and create a clear understanding of the next steps that need to be taken – thanks in large part to the targeted cooperation at senior management level. Alongside strategic considerations, new methodological approaches were introduced (e.g. in credit risk analysis) and field-tested by means of pilot projects. During the evaluation mission, all three banks emphasised the value added by the consulting services and appeared highly motivated to keep developing the approach. The credit institutions unanimously confirmed that the expansion of their MSME business will be accelerated and given greater priority as a result of the FC support.

The MSMEs financed were hardly reached by the complementary measure during the first phase. However, 70 business leaders took part in two organised meetings between MSMEs and a partner bank, which was received very positively by all parties. The MSMEs were also heard through the representative study, , which summarises the MSMEs' needs and challenges. This is already helping the banks to better understand this target group. In the subsequent phase, training courses are now also to be offered to small business owners on a targeted basis to introduce them to the formal banking sector (as originally planned).

Impact rating: 3

Sustainability

It is worth noting that the three partner banks have fully recognised not only the potential of the MSME sector but also the challenges and risks involved. In light of the role and importance of MSMEs in the Tunisian economy, we can assume that all three partner banks will commit themselves to this sector in the long term and will seek to further expand their market share.

The growing competition between the banks in the MSME sector in recent years has significantly increased their willingness to adapt more closely to this customer segment. Yet even now, not all of the three partner banks have a separate MSME strategyand the challenges as well as necessary adjustments remain numerous.

Whether these ongoing adjustments to the MSME segment are sustainable in the long term will mainly depend on the banks' willingness to invest in further necessary changes – for instance, to their processes, IT systems, personnel or marketing. Although the 18-month-long consulting support provided impetus for this, consistent implementation is in the hands of the participating banks. Digitalisation will also have a far-reaching influence on the future development of the MSME market, and the banks should already be making appropriate strategic decisions now.

The measures implemented as part of the FC project have made an important contribution to raising awareness among the banks (including at senior management level) and to implementing initial changes (customer segmentation, risk analysis, process optimisation, strategy development, etc.). Two of the partner banks were also able to qualify for the subsequent phase (MSME II), and will thus - along with five other financial intermediaries - continue to benefit from FC support in the future. The third bank will continue to independently devote itself to this customer segment.

The future commitment of the banks and investments in the MSME sector will depend first and foremost on the sector's profitability. As a result, the availability of funding (especially in local currency) and the accompanying terms and conditions will play a pivotal role. In this context, the provision of a further FC credit line in the amount of EUR 140 million (as part of the MSME II project) was greatly appreciated by all parties. This closes the financing gap that still exists to a certain extent, but does not eliminate the actual causes of the problems in the Tunisian banking sector.. However, the government has made corresponding reform efforts and is already implementing some of them. Germany's reform partnership with Tunisia makes an important contribution to this. As a result, there is tangible hope that circumstances in the banking and financial sector will improve significantly in the medium term.

Economic and political stability will be a key determinant of the future investment climate in Tunisia, as will confidence in the relevant institutions. These factors will have a significant influence on how the MSME sector develops in the future and the extent to which it can ultimately contribute to combating unemployment.

Sustainability 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:

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

Rating levels 1-3 denote a positive assessment or successful project while rating levels 4-6 denote a negative 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. Rating levels 1-3 of the overall rating denote a "successful" project while rating levels 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" (level 3).