Ex Post-Evaluation Brief

Tunisia: Loan Programmes Mise à Niveau I and II – Private-Sector Development

Programme/Client	(1) Credit line Mise à Niveau I - 1998 65 494 (2) Credit line Mise à Niveau II - 2001 65 845	
Programme executing agency	Partner banks (BNA, STB, BIAT, UBCI, BT,AMEN) and the Bureau Mise à Niveau (BMN)	
Year of sample/ex post evaluation report: 2011*/2011		
	Appraisal (planned)	Ex post-evaluation (actual)
Investment costs (total)	EUR 82.37 million	EUR 80.23 million
Counterpart contribution (company)	-	-
Funding, of which budget funds (BMZ)	EUR 82.37 million EUR 29.20 million	EUR 80.40 million EUR 29.03 million

* random sample (both)

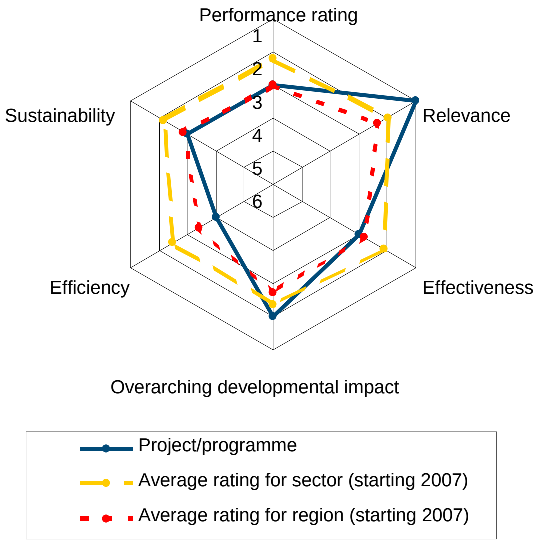
Project description: The two programmes comprised two interest-subsidised loans (Credit lines I and II) to the partner banks to provide long-term finance for small and medium-sized Tunisian enterprises (SMEs) and complementary measures in staff support for the partner banks (higher efficiency) and at the Bureau Mise à Niveau (BMN). Via staff support for BMN, smaller SMEs were to be liaised with the partner banks.
Under the programme, altogether 209 long-term loans were granted to SMEs via the partner banks.

Objectives: The overall objective of both programmes was to raise the competitiveness of profitable Tunisian enterprises for employment promotion in preparation for the dismantlement of trade barriers with the EU by 2008.
This was to be achieved through the following two programme objectives:
(1) Modernisation of profitable Tunisian enterprises (SMEs) and alignment of production standards and norms in these companies with international standards
(2) Efficient provision and monitoring of investment loans through the participant partner banks in keeping with needs
Target group: profitable, private Tunisian (particularly smaller) industrial enterprises; the partner banks as intermediaries to target group.

Overall rating: 3

Of note: Despite the persistent inefficiency of the partner banks in lending and loan monitoring and the partly adverse economic and legal framework before the fall of the Ben Ali regime, the partner banks succeeded in financing almost solely innovative and high-growth private export businesses. These are now able to keep up not only with European but also with international competitors. The employment effects achieved contribute to de-escalating the currently tense political climate in Tunisia.

Rating by DAC criteria



EVALUATION SUMMARY

Overall rating: Particularly due to (1) the good effects achieved in economic development and employment promotion, (2) the very high relevance of the programmes for ensuring political stability in Tunisia but (3) also the still inadequate efficiency of the partner banks, we assess the developmental efficacy of both FC programmes as satisfactory overall. **Rating: 3**

Relevance: The almost identical design of both programmes is plausible for meeting the financial needs of Tunisian SMEs to maintain and/or raise competitiveness and is still highly relevant for economic development and employment promotion. This is also underlined by the recent political unrest, mainly prompted by high (youth) unemployment. In view of the adverse financial sector framework identified at the time of both programme appraisals and the inefficiency of state-owned banks, the development of Tunisian SMEs was the more important objective of both programmes.

Support for Tunisian enterprises through the government's Mise à Niveau (PMN) programme therefore remains highly relevant, in comparison with the situation at programme start, currently more with a view to international competitiveness and employment promotion. Like the overall engagement of German Development Cooperation (DC), both measures are aligned with this programme. The interventions of German DC institutions are designed for complementarity and there is good institutionalised coordination between German activities and the EU programme as well as with major bilateral donors in sustainable economic development.

Through support to the Bureau Mise à Niveau (BMN) carried out until 2005 via a complementary measure, smaller SMEs were liaised with the participant partner banks and also with BMN assistance. Small SMEs still have insufficient access to (long-term) finance. Operational shortcomings in selected partner banks were addressed in selective training activities.

As the largely export-dedicated Tunisian industry currently needs long-term finance even more than at programme appraisal, this is available to only a limited extent for both banks and businesses due to the financial sector framework and since SMEs in particular are still not sufficiently served by banks, the relevance of the programmes remains very high in our assessment (Sub-rating: 1).

Effectiveness: To measure programme objective achievement, indicators were defined both for the final borrowers (turnover and higher exports, implementation of modernisation measures) and the partner banks (loan amount, company size of final borrowers, loan handling time, portfolio at risk [PAR], return on equity).

The indicator targets for the final borrowers were met on average. The conditionalities made to the banks on loan ceilings and on the allocation of part of the credit lines provided for small SMEs were also met on average. However, the targets for the programme objective indicators on maximum loan amount and the size of small SMEs were relaxed in retrospect for Credit line I and later also for Credit line II to ensure partner bank demand for the two credit lines. This had a detrimental effect on the smaller, less capitalised SMEs. Nor were the targets of the two most important indicators for partner bank efficiency (loan handling time, PAR) achieved.

The capacity-building effects ascribed to the complementary measure in the partner banks in programme design can, however, be rated as small. This can be inferred both from the continued lack of lending capacity in the partner banks promoted by the complementary measure (see Efficiency), but is also evident from the fact that none of the promoted partner banks has aligned its business strategy more closely with smaller SMEs.

The benefit of the strategic development plans (Plan Mise à Niveau) prepared with support from BMN for targeted lending through the partner banks to small SMEs, must, however, be placed in critical perspective since firstly, only 24 of the assisted enterprises benefit from finance via the partner banks and secondly, the development plans did not bring about the intended changes in loan securitisation policy for SMEs to the lasting detriment of small, less capitalised firms in particular. The development plans were merely used by the partner banks as an additional, generally highly estimated, aid for lending decisions.

As the intended target group was reached and the SMEs financed by the two FC programmes were predominantly export-dedicated enterprises but the complementary measures were hardly sustainable and the objective indicators for bank efficiency were not met for the most part, we assess the effectiveness of the programme as just about satisfactory (Sub-rating: 3).

Efficiency: The credit lines were largely used to finance existing customers of the partner banks with a large demand for long-term loans. These, however, can only be granted in restricted measure by the partner banks, which are mainly refinanced via deposits (see Impact). The two long-term and untied credit lines were therefore welcomed by both the banks and the enterprises and seen as a competitive advantage over credit lines of other donors (e.g. France, Spain, Italy).

The conditions for the first FC credit line were appropriate at the beginning, became increasingly less attractive, however, due to the KfW requirement of setting the annual interest for final borrowers at a maximum of 8% compared with the Tunisian reference interest rate (TMM). As this reduced the interest margin for banks, small loans to SMEs entailing higher handling costs presumably moved gradually out the focus of the programme banks. No interest rate ceiling was required for the second line.

Both credit lines were fully integrated in the processes and procedures of loan approval and supervision of the banks. Owing to the persistent, inadequate efficiency of the banks, as measured in particular by the large 12% average percentage of non-performing loans (NPL), the efficiency of programme-financed lending (average NPL of 22%) can be accordingly rated as inadequate. Leaving aside the two state-owned banks, BNA and STB, whose involvement in the programme was also politically motivated, the average NPL ratio for loans financed via both programmes amounts to 8%. We therefore assess the production efficiency as just about unsatisfactory (4).

The inefficiency of the banks also affects the repayment of the loans granted. The successful SMEs of those receiving financing can be expected to continue to invest and the partner banks to provide funds for this in future also. Yet in view of the continued large ratio of NPLs at the partner banks (despite clear improvements over the term of the programmes), some of the loans will not be repaid. However, the large amount of NPLs at the partner banks (and the whole banking sector) is, however, also due to the inability to enforce outstanding claims, which impair the repayment morale (moral hazard) of borrowers. A high professional standard in risk management at the partner banks is, however, imperative in this context.

Despite these problems affecting the whole Tunisian banking sector, the partner banks succeeded in promoting numerous innovative and viable SMEs to create many new jobs (see Impact). Through steady growth, the SME sector makes a major contribution to employment promotion in Tunisia and will play a major role for future national political stability. We therefore assess allocative efficiency as satisfactory (3).

The complementary measures carried out as part of both programmes are of high relevance, but are assessed as not very efficient in view of the small impacts altogether. This holds particularly for the complementary measure in BMN, but also largely for those carried out in the partner banks.

We therefore assess the efficiency of both programmes as unsatisfactory (Sub-rating: 4).

Overarching developmental impact: Almost all SMEs visited during ex post evaluation were export-dedicated businesses with viable products and highly professional and competent management. The capacity utilisation of investment objects financed by the partner banks is mostly high to very high and the investments have made a sustainable contribution to raising the competitiveness of the SMEs - not just with European but also with international competitors, as many companies maintain business relations beyond the EU. In this respect, the developmental objectives of both FC programmes were even surpassed.

Except for the few enterprises liaised with the programme via the complementary measure at BMN, most companies are existing customers of the partner banks that benefited from both FC programmes. The maximum balance sheet total of TDN 1.5 million contractually agreed between KfW and the partner banks for smaller SME outreach of at least 30% of enterprises financed by both programmes was even exceeded, but there is no indication of a closer focus of partner banks on smaller SMEs.

This concentration is also hampered by the financial sector framework that hardly enables banks to obtain long-term refinancing and restricts long-term lending to 3% of deposits. These are adverse parameters, as deposits on average make up 80% of refinancing for the partner banks. This constrains long-term lending and inevitably leads to finance being provided to larger enterprises with lower transaction costs in relation to loan amount. These limitations were, however, already known when the FC programmes started.

As the long-term effects on the target group and Tunisian business and industry are very beneficial and the partner banks are also likely to continue to support the enterprises in future, but the adverse financial sector framework for sustainable financial system development was already known at the start of the programmes, we assess the impact of the programmes as good (Sub-rating: 2).

Sustainability: All partner banks are predominantly geared to financing larger SMEs and will also expand this market segment to meet the high financial requirements. In view of the persistent internal problems of the partner banks, including lending and loan monitoring, most will focus for the time being on further consolidation in the served market segment before realigning strategy towards smaller SMEs, for example. Where the measures taken and products developed in complementary measures at partner banks have been assimilated into everyday business, there is reason to expect high sustainability. Unfortunately, this is hardly the case.

Long-term refinancing for SMEs is still lacking and can hardly be influenced by the banks. Given the rudimentary bond market in Tunisia, credit lines of other banks also provide the only way for partner banks to obtain such funding. As Tunisia's rating and the inefficiency of the banking sector still do not allow for market-conform refinancing by international private banks, they will remain heavily dependent on pro-development bilateral and multilateral financial institutions in the short to medium term. Without this continuous support and with the persistent limitation on deposit use, there is no reason to expect the increased development of long-term investment lending business (>7 year loan term).

The liaison of smaller SMEs with the partner banks via the complementary measure at the BMN was neither continued by it nor was this approach integrated into the design of the BMN.

Nevertheless, there are grounds to expect good to very good sustainability of the financed investments. They were provided with long-term finance, which spreads the financial burden for the enterprises better over their operational life. This will contribute to financial stability and to business growth, both essential for secure long-term employment.

As the sustainability of the investments financed through the programmes can be rated as good to very good, but the partner banks still face problems in lending and loan monitoring, despite the improvements made, they have not concentrated more on smaller SMEs and the problems of the financial sector identified at the beginning of the programmes persist, we provisionally assess the sustainability of the programmes as satisfactory (Sub-rating: 3).

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).