Tunisia: Financial Sector Programme for Rural Areas – Banque Nationale Agricole

Ex-post evaluation

OECD sector	24030 Financial intermediaries of the formal sector	
BMZ Programme No.	(a) 1995 65 995 (loan) (b) 1995 70 326 (personnel support)	
Programme-Executing Agency	Banque Nationale Agricole	
Consultant	none	
Year of ex-post evaluation	**2005**	
	Project appraisal (planned)	**Ex-post evaluation (actual)**
Start of implementation	(a and b) 06/96	(a and b) 12/96
Period of implementation	(a and b) 30 months	(a and b) 60 months
Investment costs	no information available	EUR 37.50 million
Counterpart contribution	no information available	EUR 18.75 million
Financing, of which Financial Cooperation (FC) funds	(a) EUR 18.75 million (b) EUR 1.25 million	(a) EUR 18.75 million (b) EUR 0.90 million
Other institutions/donors involved	World Bank	World Bank
Performance rating	5	
• Significance / relevance	5	
• Effectiveness	5	
• Efficiency	5	

Brief Description, Overall Objective and Programme Objectives with Indicators

In the context of the “Financial Sector Programme for Rural Areas“, which was co-financed with the World Bank, the provision of an FC loan of EUR 18.75 million and an accompanying measure of EUR 1.15 million to the Banque Nationale Agricole (BNA) was envisaged. The FC loan funds were designed to finance part of the medium and long-term investments by small and medium-sized enterprises in the fields of agriculture, handicrafts and services in rural areas. The staff support measures were implemented to strengthen the institutional base of the executing agency BNA. This was to further enhance the ongoing process of financial restructuring and rehabilitation of BNA. The overall objective was to stabilise and increase incomes in rural areas. The project objectives were to improve the credit supply to enable the financing of profitable investments by the target group and to strengthen BNA as a promotional bank in rural areas.

The indicator defined to assess the achievement of the overall objective was the income effect on peasants and craftsmen (impact analysis of individual target groups). The main indicators for the achievement of the project objective were the development of repayment rates (target: for loans extended from January 1994 onwards 90% of debt service payments for agricultural loans and 95% of debt service payments in the field of loans to trade and industry were made as contractually agreed). However, in the course of the project implementation it became apparent that the achievement of these indicators was unrealistic and the definition of the indicators was not precise enough. In consequence, the indicators were redefined at the end of 1999: the “portfolio-at-risk” and the “overdue loans ratio” were chosen as indicators for the portfolio quality of BNA.

The accompanying measures implemented under the project focussed on improvements in the area of management information systems, support for BNA in the introduction of an "appropriate lending technology" for micro customers in rural areas and support for the process of decentralisation at the bank.

Programme Design / Major Deviations from the original Programme Planning and their main Causes

The FC loan funds were designed to finance part of the medium and long-term investments by small and medium-sized enterprises in the fields of agriculture, handicrafts and services in rural areas. The target group of the project were small and medium-sized enterprises in rural areas in the fields of agriculture, handicrafts and trade as well as small and medium-sized agro-industrial enterprises (balance sheet total of up to TND 2 million). The main focus was on small and medium-sized farm enterprises that are potentially creditworthy (annual income of more than TND 3,500) but have so far not enjoyed access to loans extended by BNA. These enterprises were to be opened up as a new customer group for BNA. The target group category comprises enterprises with a size of up to 20 ha in areas with annual rainfalls of more than 600 mm or in areas with lower rainfalls in combination with irrigation farming. The aim of the project was to expand the customer base of BNA and to diversify the bank's acitivities in rural areas.

BNA acted as borrower and project-executing agency under the project. The FC funds provided in the period from 1996 to 2001 served to finance (or co-finance in cooperation with the World Bank) approximately 1,000 projects. 70% of these projects were exclusively financed with FC funds, 30% of the projects were co-financed with World Bank funds. Most of the projects financed (90%) were in agriculture. The average investment volume was approximately EUR 50,000. On average, 50% of the investment costs were loan financed and the remaining 50% were covered by own contributions made by the farmers or by public promotional funds. Important areas in which investments were made are the cultivation of grapes, peaches and southern fruit. 10% of FC funds were used to finance agro-industrial enterprises. Here the main focus was on cold stores and fruit conservation.

Since BNA does not provide systematic evidence of the individual projects financed under the FC project it is not possible to make detailed statements about the performance of this sub-portfolio of BNA. However, from the rough information provided by the bank it can be gathered that the quality of the loan portfolio in this field is more or less the same than that of the entire portfolio of agricultural loans of BNA. The capital that flows back to BNA from the loans extended under the FC project is used for the bank's ordinary business activities.

The above-mentioned target group characteristics were basically adhered to. However, the achievement of objectives remained far behind the expectations made at project appraisal. BNA had used the FC funds in the context of its usual business activities to extend loans to its customary target groups in rural areas. Accordingly, the project had a certain impact on economic activities in rural areas. Still, the project contributed only marginally to the diversification of activities in rural areas, which had been aimed at during project appraisal. Besides few projects in the area of processing of agricultural products (10% of funds) the bulk of loans was granted almost entirely to agricultural enterprises.

In the framework of staff support measures were implemented to strengthen the institutional base of the executing agency BNA. This was to further enhance the ongoing process of financial restructuring and rehabilitation of BNA.

Key Results of the Impact Analysis and Performance Rating

The project did not achieve the aim of sustainably improving the credit supply in rural areas. It was neither possible under the project to open up any substantial new customer groups (financial deepening) that had hitherto not had any access to the banking sector, nor was it possible to establish a new financing instrument (financial broadening). Moreover, a general increase in lending in rural areas as a result of the FC project could not be observed. Overall, the FC project contributed only marginally to refinancing the ordinary business activities of BNA (< 1%). The FC funds rather contributed to maintaining the existing inefficient structures in the financial sector. The increase in efficiency and the improvement in the structures in the financial sector that had been aspired at project appraisal did not materialize. Due to the sub-optimal lending technology and the resulting bad portfolio quality the FC funds are constantly being eroded. A structural effect on the Tunisian financial sector cannot be observed. At the time of the project appraisal it could plausibly be expected that the central problems of the project-executing agency – political influence, intermingling of banking activities with public subsidization, extremely insufficient framework conditions for the development of a financial system in rural areas – could be, if not solved, at least mastered to a certain extent. However, contrary to expectations any substantial impacts could not be achieved with regard to solving these problems. We rate the achievement of the overall objective and the project objectives as clearly insufficient. Reasons for our negative judgement are in particular the lending technology, which does not have any sustainable financial impact, the lack of structural effects at the financial sector level and the doubtful sustainability of part of the projects financed at the sub-borrower level.

It had been hoped that the project would help to strengthen BNA both institutionally and financially. As at the time of the project appraisal, BNA is still one of the leading commercial banks in Tunisia. It provides 60% to 70% of all loan financings for agricultural projects extended by the Tunisian financial sector and has the second largest branch network. Thus, BNA plays an important role in the financial system in rural areas in Tunisia. Since it cannot be expected that the ongoing process of privatisation of the financial sector will make any considerable contribution to improving the offer of financial products in rural areas, BNA will have to play a major role within the Tunisian financial system in the next few years, too. Against this background it is very dissatisfying that the fundamental restructuring of the bank, which was to be supported with the project subject to final evaluation here, did not make any substantial progress. Still today, the management structure of BNA is characterized by a strong dependence on political decisions. Finally, this hampers the development of the bank into a commercially oriented universal bank. As a "state bank" BNA is hampered in its operative activities by undue administrative constraints and cannot act efficiently in many areas.

The impact achieved with the accompanying measure also remained far behind expectations. The operative deficiencies of BNA were correctly identified and at the purely operational level suitable measure were decided. However, there were considerable difficulties, within the existing framework at BNA, to implement these measures successfully. The final result of the difficulties mentioned above is that the majority of measures were implemented only with substantial delays and the impacts achieved in individual areas were at best marginal. Even today, BNA does not have a modern management information system. This is due to the fact that though the necessary preparations had been made in the context of the accompanying measure it was decided at the political level that such an investment would be authorized only for the state banks and not for BNA. Equally, BNA has still today not been equipped with the appropriate lending technology which would allow the bank to efficiently service its retail customers in rural areas. The innovations which were brought under way in the context of the accompanying measure got stuck in the pilot phase since much more far-reaching restructuring measures would have been required to actually implement the proposals to expand the customer group of the bank. Moreover, due to its strained financial situation already at the time of the project appraisal, BNA had hardly any incentives to become active in this cost-intensive and risky business area.

However, the project did have a certain developmental impact at the level of the financed projects: The agricultural projects financed contributed to an expansion of the total agricultural surface and had a positive effect in terms of creation of jobs and generation of incomes. However, the technical and/or financial sustainability of some of the projects financed is not ensured. Due to the creation and/or safeguarding of jobs the projects financed under this FC measure made a certain contribution to the economic development and, thus, to reducing poverty. The employment effects prevented many people from slipping below the poverty line.

The risks to the sustained developmental effectiveness of the FC project are on the level of the projects financed and the level of the project-executing agency BNA. The high "portfolio-at-risk" of the agricultural loans extended is a reliable indicator for the fact that part of the projects financed do not show a sufficient financial rate of return. In addition, a part of the borrowers have a bad payment record and do not service their debts when due or do not pay at all. Especially the sustainability of smaller farms is jeopardized due to the increasing interlinkage of the Tunisian economy with the world market (e.g. competition from cheap imported fruit). In particular in view of the fact that the Tunisian financial sector is developing very fast, the financial sustainability of BNA has to be considered as strongly jeopardized.

Based on a combined assessment of all impacts and risks described above, we have arrived at the following rating of the project's developmental effectiveness:

Effectiveness

The project objectives were to improve the credit supply to enable the financing of profitable investments by the target group and to strengthen BNA as a promotional bank in rural areas. The achievement of both project objectives was clearly insufficient. Though some progress was made with regard to the institutional strengthening of the bank the overall degree of achievement of the objectives is low. The central indicator of project success (improvement of the quality of the loan portfolio) was not sufficiently achieved. At the end of 2004 the portfolio-at-risk (< 360 days) was roughly 25%. As regards the portfolio of commercial loans the portfolio-at-risk was roughly 15% and in the area of agricultural loans is was just under 60%. Overall, it cannot be stated that BNA was able to achieve the intended turn-around. BNA is dependent on regular recapitalisation by the Tunisian state. The financial performance of BNA is weak. The earnings situation and return on equity are insufficient. The lending technology is sub-optimal: Overdue loans are consistently monitored. Central objectives pursued with the staff support measures, e.g. the introduction of a new management information system or an adapted lending technology for small borrowers in rural areas, were not achieved. The intended improvement of the credit supply in rural areas was equally not achieved. Additional customer groups were not opened up. Overall, we judge the project's effectiveness as insufficient **(sub-rating 5).**

Relevance/Significance

The overall objective was to stabilise and increase incomes in rural areas. The target group was basically reached with the FC funds available. Positive impacts on the economic activity in rural areas were observed to a certain extent. Still, the project did not contribute to a diversification of activities in rural areas. Due to the insufficient financial performance of BNA in the field of lending, the real-economy effects (creation of jobs and incomes in rural areas) were only limited. Due to the sub-optimal lending technology of BNA the FC funds are constantly being eroded. Due to inadequate loan appraisal processes at BNA financing was also provided for projects that were not, or not sufficiently, profitable. Given the fact that the project did not produce the intended structural effects on the financial sector and due to the limited financial sustainability of the individual projects financed we rate the significance and the relevance of the project as insufficient **(sub-rating 5**).

Efficiency

Ultimately, the FC funds rather contributed to maintaining the existing inefficient structures in the financial sector. The increase in efficiency and the improvement in the structures in the financial sector that had been aspired at project appraisal did not materialize. Due to the sub-optimal lending technology of BNA the FC funds are constantly being eroded. For this reason we rate the allocation efficiency as clearly insufficient. As at the time of the project appraisal, the potential for reducing administrative expenses through automation of processes, which was one of the goals pursued with the project, is still huge and has for the most part not exploited. The staff numbers of BNA are far too high. This is an additional burden on the bank. The profit per employee and the return on equity are clearly lower than the market average. We rate the production efficiency as not just sufficient. Overall, we judge the project's efficiency as insufficient **(sub-rating 5).**

Overall, under consideration of the aspects of effectiveness, relevance/significance and efficiency we judge the project's **developmental effectiveness as clearly insufficient (overall rating: 5)**.

General Conclusions

When cooperating with public executing agencies it has to be ensured that the developmental effectiveness of projects promoted under German Financial Cooperation is not counteracted through political influence exerted by the state, which might jeopardize the financial sustainability of the projects supported. For instance, it is only possible to implement financially sustainable lending technologies if any grant elements are made transparent and are in conformity with the market. Mixing loans and subsidies in a way that is not comprehensible for the target group (e.g. a politically motivated arbitrary changing of loans into grants) will have a negative impact on customers' willingness to repay the loans and will undermine the lending technology.

The implementation of lending technologies to reach new customer groups ("downscaling") requires a high degree of management support on the part of the partner institution ("ownership"). It is much easier to achieve this support if the strategic perspectives of an FC project and the strategic perspective of the partner institution (mission statement) coincide and if in terms of volume the project has a significant effect on the project-executing agency.

An effective monitoring of the achievement of project objectives requires that the target indicators are defined as exactly as possible and are regularly available at later stages.

A planned project should not be implemented if the project-executing agency is not willing to accept the necessity of central institutional and/or organisational reforms, which are vital for the developmental success of a project.

Projects in the financial sector will not have a sustainable developmental impact if the framework conditions in the sector are unfavourable. Financial cooperation measures should only be launched in such an environment if convincing reforms are introduced at the same time. If necessary, a scenario to terminate the project should be developed and applied if the promised reforms are not implemented.

Legend

Developmentally successful: Ratings 1 to 3	
Rating 1	**Very high or high degree of developmental effectiveness**
Rating 2	**Satisfactory 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 the "developmental effectiveness" of a project and its classification during the ex-post 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 their own and generate positive results after the financial, organisational and/or technical support has come to an end.