Ex-ante Evaluation

1. Name of the Project
Country: The Republic of Tunisia Project: Private Investment Credit Project (Loan Agreement: March 30, 2007; Loan Amount: 6,277 million yen; Borrower: The Government of the Republic of Tunisia)
2. Necessity and Relevance of JBIC's Assistance
Tunisia has been promoting the manufacturing sectors (particularly those of textile, agribusiness, and electric components) and the service sectors (tourism, transport, IT service, etc.) with a view to creating a diversified industrial structure, and has been achieving an annual average GDP growth rate exceeding 4–5% on a stable basis in recent years. The government gives high priority to nurturing small and medium-sized enterprises (SMEs) in these industries as a measure to the address high unemployment rate (14.3% in 2005). However, those SMEs have only limited capacity in technical, financial and managerial domains, and their international competitiveness is still insufficient. In particular, the Tunisian textile and clothing industry, which is the main industry, is locked by fierce competition in the EU market with emerging economies, such as China, following the expiration of the Multi-Fiber Agreement in 2005. In this context, Tunisian SMEs in the manufacturing sectors need to invest more in new equipment and quality improvement in order to generate products with high levels of added value. Moreover, SMEs in service sectors are also expected to contribute to Tunisia's economic growth, as those in tourism and IT service industries have been newly created and expanded rapidly. In the 10th Five-Year Economic and Social Development Plan (2002–2006), the government established their primary objectives for accelerating promotion of the industries, increasing investment, creating employment opportunities, reinforcing international competitiveness, and improving productivity and efficiency of the private sector. In order to achieve these objectives, the government has been operating the "Upgrading Program" (Programme de Mise à Niveau: PMN) since 1995 with the aim of enhancing the international competitiveness of SMEs. The 11th Five-Year Economic and Social Development Plan (2007–2011) which is under preparation is also expected to place the government's focus on the reinforcement of international competitiveness. However, regarding the financial sector, Tunisian banks have been struggling to resolve the non-performing loans incurred in the 1980s. Due to their weak credit administration and lack of knowledge on each industrial sector, commercial banks are at present unable to respond adequately to SMEs' eager demand for finance. Therefore, the government established the Bank of Financing Small and Medium Enterprises (Banque de Financement des Petites et Moyennes Entreprises: BFPME) in 2005 with the main purpose of supplementing the insufficient loans of commercial banks and providing support for the creation of SMEs. BEPME has extended over 100 mid- and long-term loans to date. Under these circumstances, the World Bank provides the Economic Competitiveness Development Policy Loan to support the policy and institutional improvement in this sector. In addition, EU, EIB, AFD of France, KfW/GTZ of Germany provide support programs such as financing for the Two-Step Loan (TSL) to SMEs, management guidance for SMEs, and capacity building assistance for commercial banks and BFPME. Still, only limited access to medium- and long-term financing is

available to SMEs and therefore the need for this project is high.

In JBIC's Medium-Term Strategy for Overseas Economic Cooperation Operations (FY2005–2007), "a foundation for sustained growth" is listed among the priority areas and an emphasis is placed on the improvement of the investment environment through the development of SMEs, etc. With respect to Tunisia, intellectual and technical assistance aimed at supporting SMEs and enhancing industrial competitiveness is considered as a priority area. Therefore, JBIC's assistance in this project is highly necessary and relevant.

3. Project Objectives

This project aims to promote the creation and expansion of Tunisia's small and medium-sized enterprises (SMEs) through provision of mid- and long-term finance at low interest rates, thereby contributing to the development of SMEs' productive capacity, improving Tunisia's industrial competitiveness and promoting new employment opportunities.

4. Project Description

(1) Target Area

The whole of the Republic of Tunisia

(2) Project Outline

(a) Mid- and long-term Two-Step Loan (TSL) to SMEs (sub-loans to support start-up enterprises via BFPME and sub-loans to support business expansion of SMEs registered with PMN via other commercial banks serving as participating financial institutions (PFI))

(i) Eligible sectors: Manufacturing and industry-related services sectors

(ii) Eligible enterprises: Enterprises with less than 300 employees and foreign capital not exceeding 50% of the total capital of the enterprises, and meeting the following conditions:

- Start-up: The amount of new investment with the sub-loan provided under this project is from 80,000 Tunisian dinar (TD) (approx. 7 million yen) to 4 million TD (approx. 360 million yen) inclusive
- Business expansion: The amount of net fixed assets before new investment with the sub-loan provided under this project is from 80,000 TD (approx. 7 million yen) to 4 million TD (approx. 360 million yen) inclusive

(iii) Repayment period applied to end users

- BFPME: 2–10 years (grace period: up to 2 years)
- Commercial banks: 7–12 years (grace period: up to 3 years)

(iv) Lending limit per loan: 1 million TD (approx. 90 million yen)

(v) Coverage of ODA Loan per sub-loan

- BFPME: Up to 50% of the total project cost
- Commercial banks: Up to 70% of the total project cost

(vi) Interest rate for end users

- In TD: Basically 7.9% (=interest rate on ODA Loan 0.9% + foreign exchange risk cover fee 4% + PFI's spread up to 3% + cost of consulting services)
- In yen: Basically 3.9% (=interest rate on ODA Loan 0.9% + PFI's spread up to 3% + cost of consulting services)

(b) Consulting services (support for the executing agency in project implementation, monitoring and supervision, advice on monitoring of end users and business management, etc.)

(3) Total Project Cost/Loan Amount
6,591 million yen (Yen Loan Amount: 6,277 million yen)

(4) Schedule
March 2007–December 2011 (58 months)

(5) Implementation Structure
(a) Borrower: The Government of the Republic of Tunisia
(b) Executing Agency: Ministère de l'Induestrie, de l'Energie et des Petites et Moyennes Entreprise (MIEPME), Banque de Financement des Petites et Moyennes Entreprises (BFPME)
(c) Operation and Maintenance System: The fund will be re-lent to PFI via the Central Bank of Tunisia, and PFI will examine sub-loan applications and extend sub-loans to end users. Nine financial institutions including BFPME and eight commercial banks are selected as PFI based on their financial soundness, management capacity, and past record of financing to SMEs. The Central Bank of Tunisia will manage the special account to be established for this project and conduct annual external auditing of the account. For the purpose of supervising and coordinating this project, a Steering Committee will be organized by representatives of MIEPME, BFPME, Ministry of Development and International Cooperation, Ministry of Finance and the Central Bank of Tunisia.

(6) Environmental and Social Consideration
(a) Environmental Effects/Land Acquisition and Resident Relocation
(i) Category: FI
(ii) Reason for Categorization
Because of the nature of this project, which provides financing to intermediary financial institutions, specific subprojects will not be identified prior to JBIC's approval and those subprojects may be likely to have adverse impact on the environment as defined under the "Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations" (established in April, 2002). Thus, this project is classified as Category FI.
(iii) Other/Monitoring
The subprojects that are likely to have minimal or no adverse impact on the natural environment will be selected.
(b) Promotion of Poverty Reduction
None
(c) Promotion of Social Development (e.g. Gender Perspective)
None

(7) Other Important Issues

None

5. Outcome Targets

(1) Evaluation Indicators (Operation and Effect Indicator)

Indicator	Baseline (2007)	Target (2013, 2 years after completion)
Repayment rate of the project's sub-loans	–	More than 90%
SMEs sales increase rate (%)	–	To be established at the start of the project
SMEs operating profit increase rate (%)	–	To be established at the start of the project
Number of employees of SMEs	To be identified at the start of the project	To be established at the start of the project

(2) Internal Rate of Return

Not applicable

6. External Risk Factors

None

7. Lessons Learned from Findings of Similar Projects Undertaken in the Past

In the ex-post evaluation of a similar project, the lesson was learned that in a development financing project involving more than one executing agency (financial institution) concurrently, it is effective not to apply uniform conditions for eligible enterprises and sub-loan terms but to design them in a manner that allows flexible application depending on the demand for finance and the business scale of the target end users of each institution. Based on this lesson, in this project, sub-loans of various sizes are made available to wide-ranging types of business and enterprises.

8. Plans for Future Evaluation

(1) Indicators for Future Evaluation

(a) Repayment rate of the project's sub-loans (%)
(b) SMEs sales increase rate (%)
(c) SMEs operating profit increase rate (%)
(d) Number of employees of SMEs

(2) Timing of Next Evaluation

After project completion