ICR Review
Operations Evaluation Department

Report Number : ICRR11023

1. Project Data:		**Date Posted :** 07/25/2001		
PROJ ID:	P005748		**Appraisal**	**Actual**
Project Name :	Private Investment Credit	**Project Costs (US$M)**	201.0	191.07
Country:	Tunisia	**Loan/Credit (US$M)**	120.0	119.75
Sector(s):	Board: FSP - Banking (100%)	**Cofinancing (US$M)**	81.0	71.32
L/C Number:	L3671; L3672; L3673; L3674; L3675; L3676; L3677; L3678; L3679; L3680			
		Board Approval (FY)		94
Partners involved :	Japan Bank for International Cooperation (JBIC)	**Closing Date**	12/31/1999	12/31/2000
Prepared by :	**Reviewed by :**	**Group Manager :**	**Group:**	
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2. Project Objectives and Components

a. Objectives

The project was a Financial Intermediary Loan in which project funds were on -lent, or lent directly, to private companies seeking medium- or long-term funds. It was intended to provide financially sound PFIs with access to term resources at market rates. During a transition period in which long term capital markets were expected to develop, this was intended to encourage sound medium and long term lending, and greater competition in financial markets.

PICP complemented several other ongoing and planned Bank operations aimed at financial sector liberalization and stronger prudential regulation of financial institutions . While retaining its original objectives, the PICP also placed greater emphasis on the strict application of stronger prudential regulations (including stricter central bank, BCT, guidelines for loan classification, provisioning, suspension of interest accrual, and the ratio of capital to risk -weighted assets), which were applied to PFIs on a gradual basis.

b. Components

1. Direct lines of credit (US$70 million): Direct loans to firms, including 4 private commercial banks, 2 private leasing companies, and 3 public development banks; **2. APEX loan** (US$49.3 million): Granted to the GOT as a line of credit to be used by eligible PFIs. Included 3 private commercial banks, one public commercial bank, 3 private leasing companies, and 2 public development banks; **3. JBIC loan** (US$81 million): Parallel financing for an apex line of credit to the GOT; administered by IBRD. Nine PFIs (including six that had participated in other components): 1 private commercial bank, 5 private leasing companies, one public commercial bank, and 2 public development banks. **4. TA** (US$0.7 million): Funds to refinance project preparation facilities to install a new accounting system . In all components, loans were made to firms in any sector except farming, housing construction, and land development for housing (sectors already covered by other IBRD operations).

c. Comments on Project Cost, Financing and Dates

The project became effective on June 14, 1994, and closed on December 31, 2000, one year later than planned. 99.7% of IBRD funds and 88.0% of JBIC funds were disbursed (see section 5, below, Shortcomings); in the aggregate, the project disbursed 95% of the funds envisioned. TA funds were reprogrammed and added to the credit lines.

3. Achievement of Relevant Objectives:

The project supported 355 subloans, with 95% of total funds disbursed. Sectors supported (IBRD) included tourism (43%), agro-industry (10%), other industry (35%), and services (11%).

While the extent to which the PICP provided *incremental funding* is not known, overall medium and long-term lending expanded considerably during the project (see section 4). Anecdotal evidence suggests that Bank funds were important to the emergence and rapid growth of newly-formed leasing companies. Interviews with participating banks indicated that they had reached out beyond their established client bases during the PICP, and that competition among banks for sound clients was strong . And from 1998 to 2000, average bank lending spreads

dropped from 3.8% to 2.9%, suggesting the effects of greater competition.
During the course of the project, participating PFIs became more financially sound, in accordance with the government's stricter standards. By project close, all PFIs met the BCT's new regulations on capital adequacy, loan classification, and non-accrual of interest on non-performing loans.

4. Significant Outcomes/Impacts:

- Medium and long-term lending to private firms increased 60% in current Tunisian Dinars from 1994 to 1999
- By 1999, the share of the country's medium and long-term loans provided by the project's 15 PFIs reached 29%
- There has been a substantial increase in the number of private leasing companies, which has increased competition
- Financial information provided by PFIs substantially increased Bank understanding of the financial system, which facilitated identification of priority issues addressed by subsequent adjustment operations (ECAL and ECAL II).
- As PFIs' financial soundness improved during the project, many achieved better access to outside funding sources. Most of the leasing companies issued bonds, and one bank issued paper on the international market.
- PFIs will re-lend loan repayments, so the project will have a continuing impact on the country's economy.

5. Significant Shortcomings (including non-compliance with safeguard policies):

- Despite the Bank's urging, the GOT did not develop strategic plans to restructure public development banks, i.e., diversify their portfolios, improve credit management, and transform them into more viable, competitive institutions.
- The project design was overly complex. There were 18 separate credit lines, with a substantial administrative and supervision burden. As noted below in section 7, a single apex loan to finance eligible subprojects would have been preferable.
- The complexity of the project made it difficult to administer on behalf of a co-financier (JBIC). Delays caused by this complexity and related delays on the part of the GOT prevented the JBIC loan from disbursing fully.
- As a consequence of the complex project design and resultant high administrative costs, Quality at Entry is rated as Satisfactory, rather than Highly Satisfactory as in the ICR

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev.:	Substantial	Substantial	
Sustainability:	Highly Likely	Likely	The project, while Likely sustainable, does not meet the standards required to be Highly Likely. In particular, GOT, while generally supportive, exhibited some shortcomings, for example, in compliance with the covenant relating to public development banks.
Bank Performance:	Satisfactory	Satisfactory	
Borrower Perf.:	Satisfactory	Satisfactory	
Quality of ICR:		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- For a FIL, a simple apex loan that financed eligible subprojects on a *first come, first served* basis would have facilitated loan processing and would have been preferable to the PICP arrangement. It would also have been more efficient in the allocation of loan funds, avoiding the problem of unallocated funds within any particular PFI.
- Covenants must be clear as to the ability of the borrower/guarantor to achieve successful compliance. In the PICP, the GOT commitment as Guarantor to develop restructuring strategies for public development banks was difficult to enforce, at least in part because they were partly owned by foreign governments.

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

The ICR is satisfactory in that it presents the basic information necessary to assess the project's performance. However, the document presents a great deal of detail on the mechanics of the project which makes it more difficult to draw out key evaluative conclusions.