



<b>1. Project Data:</b>		<b>Date Posted :</b> 06/12/2002	
<b>PROJ ID:</b> P005720		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Tn-rural Finance	<b>Project Costs (US\$M)</b>	420.0	
<b>Country:</b> Tunisia	<b>Loan/Credit (US\$M)</b>	65.0	47.37
<b>Sector(s):</b> Board: RDV - General agriculture fishing and forestry sector (53%), Micro- and SME finance (31%), Agro-industry (13%), Housing construction (2%), Banking (1%)	<b>Cofinancing (US\$M)</b>		
<b>L/C Number:</b> L3892			
	<b>Board Approval (FY)</b>		95
<b>Partners involved :</b>	<b>Closing Date</b>	09/30/1999	06/30/2001
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
John English	John R. Heath	Alain A. Barbu	OEDST
<b>2. Project Objectives and Components</b>			
<b>a. Objectives</b>			
<p>The primary objectives of the project were to assist Tunisia in promoting viable private investment in rural areas and in strengthening, on a sustainable basis, the financial viability and institutional reform process of the National Agricultural Bank (BNA) in order to improve its development impact on the country's rural sector . Specifically, the project was to assist in:</p> <ul style="list-style-type: none"> <li>• supporting the implementation of a sound action plan to recapitalize BNA, address its arrears problems, and improve its overall profitability;</li> <li>• developing an effective strategic planning process, decentralized organizational plan and internal controls for BNA to implement improved lending policies, risk analysis, and client selection, provide credit to all creditworthy farmers, and expand financial intermediation (savings and credit) in rural areas); and</li> <li>• developing a pilot program for the establishment of group lending schemes at the village level .</li> </ul>			
<b>b. Components</b>			
<p>The project had three components:</p> <ul style="list-style-type: none"> <li>• <i>BNA's Credit program.</i> - to include loans for: on-farm activities by small, medium and large farms; agricultural service activities; aquaculture and coastal fishing; cooperatives and medium sized enterprises; rural housing; and activities of rural artisans and women . (98% of estimated project cost)</li> <li>• <i>BNA's institutional development.</i> - to support a program to strengthen BNA's financial viability and organizational structure, improve its management effectiveness through enhanced management tools, and facilitate the effective decentralization of its operations, including provision of training, data processing equipment and MIS. (2% of estimated project cost)</li> <li>• <i>Informal rural finance and group lending schemes</i> - to develop and carry out a feasibility study on group lending with two elements: (a) informal rural markets and the operation of group lending to better understand its riskiness, terms, conditions and recovery; and (b) the legal and regulatory institutional framework to understand how best to promote mutual guarantee credit groups and credit unions at the village level . (0% of estimated project cost)</li> </ul>			
<b>c. Comments on Project Cost, Financing and Dates</b>			
<p>The final project cost is not available in the report . The only data provided is for the amounts disbursed from the Bank loan in the sub-categories, totalling US\$ 47.37 million. The closing date was extended twice by a total of 21 months.</p>			
<b>3. Achievement of Relevant Objectives:</b>			
<p>The project failed to achieve its stated objectives . Some progress was made in enhancing the financial sustainability of BNA, but the institution cannot be said to have yet achieved this goal .</p>			

#### 4. Significant Outcomes/Impacts:

Progress in the individual components was as follows :

- *BNA's credit program.* The component only partially achieved its objective of promoting viable private investments in rural areas, mainly by supporting on-lending for improved land utilization and water resource management, livestock production, fishing and aquaculture, and equipment and small infrastructural investments. Overall, a total of over 800 sub-loans were made, the majority to small and medium farmers, which amounted to 99% of the disbursement under the project. But, initial uptake of the funds was slow, partly because the Bank only reimbursed 50% of the amount financed by BNA. When the first loan extension was agreed the reimbursement rate was increased to 75% or more, providing this amount did not exceed 70% of the project cost;
- *Institutional development.* Some progress was made in improving BNAs financial viability but BNA's portfolio quality remains weak. However, reductions were achieved in the proportion of past-due loans and of the portfolio considered "at risk". Steps were taken to decentralize the organizational structure and operations and to modernize branches, including computerization of operations .
- *Informal rural finance.* Very little progress was made. The component was to help develop microfinance for rural entrepreneurs by establishing a pilot group lending scheme at village level . The feasibility study originally proposed was substituted by a GoT study on financing for small farmers . This was much delayed. A first phase was finally completed, and was considered satisfactory by the Bank, but no progress is reported on the phase two effort, which was to recommend solutions to small farmer financing needs .

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

Data on outcome of the sub-loans made by BNA is limited, but overall performance appears to be poor . During the project the repayment rate varied from 26% to 48% and was 39% at completion. This was partly attributed to the activities being in the start-up phase, but this raises questions about the appropriateness of the loans and of the repayment conditions applied to them . Factors hampering loan recoveries have been adverse weather conditions (primarily drought) and the government's decisions, from time to time, to write off repayments of loans after droughts, thereby creating expectations of forgiveness among borrowers .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome :</b>	Unsatisfactory	Unsatisfactory	
<b>Institutional Dev .:</b>	Substantial	Modest	The project as a whole increased only to a limited extent (rather than significantly) the country's ability to effectively use financial and natural resources .
<b>Sustainability :</b>	Unlikely	Unlikely	
<b>Bank Performance :</b>	Unsatisfactory	Unsatisfactory	
<b>Borrower Perf .:</b>	Unsatisfactory	Unsatisfactory	
<b>Quality of ICR :</b>		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:

1. In financial intermediation projects it may be preferable to define a positive list of sub -project categories that could be financed and specify that no single category may receive more than a stated share of loan proceeds, rather than incorporating an up-front allocation in agreements that later have to be changed .

2. In an operation of this type, that aimed to support both rural development and institutional development of a specific financial institution, the Bank must ensure that there is a clear strategy in place to allow all the objectives to be met in a coherent manner.

8. Assessment Recommended?  Yes  No

#### 9. Comments on Quality of ICR:

The ICR is generally satisfactory, but does have shortcomings . Data on overall project "cost" is not provided, and no data is included on the use of the lines of credit provided by the co -financiers, although the text hints that they were fully utilized. It should have been feasible to reproduce a cost table to parallel that in the appraisal report .

Rather perfunctory comments are included from only one of the two co -financiers despite their significant role in the project. This response, combined with the above lack of data, suggests that the relationship with them during implementation was not close. No discussion on this is included .