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Cooperazione Italiana  
allo Sviluppo  
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**DGCS** | Evaluation Office

**CREDIT LINE IN FAVOUR OF SMALL AND MEDIUM SIZED  
TUNISIAN BUSINESSES**

**PRIVATE SECTOR DEVELOPMENT PROGRAMME IN SUPPORT  
OF SMALL AND MEDIUM-SIZED BUSINESSES THROUGH THE  
PALESTINE PRIVATE BANKING SYSTEM**

**SUPPORT PROGRAMME FOR SMALL AND MEDIUM-SIZED  
BUSINESSES**



2013

**EVALUATION**



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The picture of the cover shows vegetable marketing in Jerusalem (photograph by Gianfrancesco Costantini)

## TABLE OF CONTENTS

ACRONYMS	8
SUMMARY	10
1. INSTITUTIONAL FRAMEWORK	18
2. THE THEORETICAL AND METHODOLOGICAL FRAMEWORK	20
2.1. Evaluation objectives	20
2.2. Evaluation criteria	20
2.3. The evaluation's theoretical reference framework	20
2.4. Adopted approach and methodological principles	23
2.5. Technical and methodological tools	25
2.6. Sources	25
2.7. Methodological difficulties encountered	26
3. THE TUNISIA PROJECT	28
3.1. Project description	28
3.2. Evaluation results	38
3.3. Lessons learned	67
3.4. Recommendations	68
4. THE PROJECT IN THE PALESTINIAN TERRITORIES	69
4.1. Project presentation	69
4.2. The results of assessment	81
4.3. Lessons learned	96
4.4. Recommendations	96
5. THE EGYPT PROJECT	98
5.1. Project description	98
5.2. Evaluation results	104
5.3. Lessons learnt	112
5.4. Recommendations	113
6. ELEMENTS FOR A COMPARATIVE ANALYSIS OF THE CREDIT AID INSTRUMENT	114
6.1. Some considerations on methodology	114
6.2. The conditions for success	114
ANNEXES	117

ANNEX 1 TERMS OF REFERENCE	117
ANNEX 2 LIST OF PEOPLE MET	125
ANNEX 3 DOCUMENTARY REFERENCES	128

## Figures

Figure 1: Breakdown of operations by activity sector	32
Figure 2: Breakdown of funding by sector	32
Figure 3: Average amount of funding by sector	33
Figure 4: Location of operations	35
Figure 5: Geographical distribution of start-ups	35
Figure 6: Type of companies by region	36
Figure 7: Governorates of the sample firms	38
Figure 8: Location of sample firms	38
Figure 9: Areas of activity of the sample firms	39
Figure 10: Size of Tunisian companies to 2011	39
Figure 11: Evolution of Tunisian companies by size (1996-2011)	40
Figure 12: Enterprises by sector (year 2011)	40
Figure 13: Evolution of Tunisian enterprises by sector	41
Figure 14: Composition of GDP at constant prices by sector	42
Figure 15: Sector contribution to GDP at constant prices	42
Figure 16: Breakdown of value added in manufacturing industries by sector of activity	43
Figure 17: Tunisian Export by sector (2010)	43
Figure 18: Evolution of Tunisian exports by sector	44
Figure 19: Tunisian Import by sector (2010)	44
Figure 20: Evolution of Tunisian import by sector	45
Figure 21: Evolution of Tunisian trade balance	45
Figure 22: Composition of Tunisian exports by destination	46
Figure 23: Performance of Tunisian exports by destination	47
Figure 24: Composition of Tunisian imports by origin (2010)	47
Figure 25: Performance of Tunisian imports by continent	48
Figure 26: Evolution of trade exchanges between Italy and Tunisia	48

Figure 27: Exports Tunisian partners	49
Figure 28: Evolution of exports by trading partners	49
Figure 29: Imports by trading partners (year 2011)	50
Figure 30: Evolution of Tunisian imports for business partners	50
Figure 31: Unemployment rate by gender	51
Figure 32: Composition by gender in the unemployment rate (year 2012)	51
Figure 33: Composition of the employed workforce by gender	52
Figure 34: Evolution of the working population	52
Figure 35: Employment by sector of activity	53
Figure 36: Evolution of employment in enterprises by sector of activity	53
Figure 37: Advantages of the Italian credit line according to the SMEs	56
Figure 38: Justification for the request for funding	56
Figure 39: Recipients of the request for funding of SMEs Tunisian	57
Figure 40: Enterprise sources of information about the Italian credit line	57
Figure 41: Ownership of the sample firms	58
Figure 42: Perceived obstacles in using the credit line by the beneficiary enterprises	59
Figure 43: Request for other loans from firms in the sample	60
Figure 44: Progression of loan disbursement	61
Figure 45: Time for the approval of loans	62
Figure 46: Time for approval of loan	62
Figure 47: Changes in the turnover of sample enterprises	64
Figure 48: Job creation by sample firms	65
Figure 49: The original mechanism of project implementation	73
Figure 50: The new implementation procedure of the project	74
Figure 51: Employment by sector	82
Figure 52: Evolution of employment by sector	83
Figure 53: Evolution of GDP in the Occupied Palestinian Territory	84
Figure 54: Evolution of the components of Palestinian GDP	84
Figure 55: Evolution of Palestinian GDP and State consumption	85
Figure 56: Palestinian Exports (year 2011)	86
Figure 57: Evolution of Palestinian exports	86

Figure 58: Palestinian Imports (year 2011)	87
Figure 59: Evolution of Palestinian imports	87
Figure 60: Evolution of the Palestinian trade balance	88
Figure 61: The credit market in the Occupied Palestinian Territory	89
Figure 62: Evolution of the unemployment rate in the West Bank governorates	91
Figure 63: Unemployment rate evolution in the occupied Palestinian territories	92
Figure 64: Evolution of Palestinian SMEs and employees	94
Figure 65: Evolution of selected indicators of Palestinian companies	94
Figure 67: The sectors of the beneficiaries of the credit line	101
Figure 68: Loans in Euro	107

## Tables

Table 1: The project budget Tunisia	30
Table 2: Breakdown of the project budget	30
Table 3: Breakdown of financing operations by business sector	31
Table 4: Operation for type of funding	33
Table 5: Creation of new employment by type of company	33
Table 6: Beneficiary SMEs for type of funding and business sector	34
Table 7: SMEs for governorates and type of loan	34
Table 8: Beneficiary SMEs by geographical area and type of loan	35
Table 9: Participants in project presentation events	36
Table 10: Banks involved in the project for loans and amounts	37
Table 11: The previous Italian credit lines	46
Table 12: Impact of the project on the sample firms	65
Table 13: The objectives of the project in Palestine	70
Table 14: Composition of the project budget	71
Table 15: Comparison of the two procedures	72
Table 16: The historical stages of the credit line	76
Table 17: The original conditions and the new conditions of the project	77
Table 18: The activities planned and those effectively implemented	78
Table 19: The expected results of the project	79

Table 20: The beneficiary enterprises	80
Table 21: Actors involved in the project	80
Table 22: The features and conditions of loans	99
Table 23: The project budget	100
Table 24: List of the beneficiaries of the credit line	102

## ACRONYMS

AFD	Agence française de développement
ANPE	Association Nationale Protection de l'Environnement
BFPME	Banque de financement des petites et moyennes entreprises
CBE	Central Bank of Egypt
CIDA	Canadian International Development agency
CLSC	Credit Line Steering Committee
DGCS	Direzione Generale Cooperazione allo Sviluppo
EPCGF	European Palestinian Credit Guarantee Fund
GAFI	General Authority for Investment and Free Zones
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GOE	Government of Egypt
GOI	Government of Italy
ICA	Investment Climate Assessment
ICT	Information Communication Technology
DFI	Direct Foreign Investment
IFC	International Finance Corporation
IPU	Investment Promotion Unit
JV	Joint venture
KfW	Kreditanstalt für Wiederaufbau
LRD	Learning Research and Development
MAE	Ministero degli Affari Esteri
MEUR	Million Euro
MIC	Ministry of International Cooperation
MoF	Ministry of Finance
MSME	Micro Small Medium Enterprises
NBE	National Bank of Egypt
OECD	Organisation for Economic Cooperation and Development
NGO	Not Governmental Organisation
oPT	Occupied Palestinian Territories
OSS	One Stop Shop
PBC	Palestinian Banking Corporation
GDP	Gross Domestic Product
SME	Small & Medium Enterprise
PMU	Project Management Unit
PNA	Palestinian National Authority
PPB	Palestinian Private Banks
PSD	Private Sector Development



SFD	Social Fund for Development
SME	Small and medium enterprises
TAT	Technical Assistance Team
ToR	Terms of reference
EU	European Union
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
USD	US Dollar
UTC	Unità Tecnica Centrale (Central Technical Unit)
UTL	Unità Tecnica Locale (Local Technical Unit)
WB	World Bank

## SUMMARY

### 1. Introduction

The Ministry of Foreign Affairs, General Directorate for Development Cooperation, Office IX, has promoted the realization of an independent evaluation of three aid credit projects aimed at facilitating access to long-term credit for small and medium enterprises in the three concerned Countries. The three projects, financed by Italian Cooperation, are: "Credit line in favour of small and medium sized Tunisian businesses" in Tunisia; "Private sector development programme in support of small and medium enterprises through the Palestine Private Banking System", in the Palestinian Territories; "Support programme for small and medium-sized enterprises" in Egypt.

The evaluation initiative, besides expressing an assessment of the results obtained by each of the three projects, was intended to furnish general indications on the use of aid credit as a means for development cooperation, also in order to furnish recommendations for the continuation of undertaken assistance.

### 2. Results of the evaluation concerning the project "Credit line in favour of small and medium-sized Tunisian enterprises" in Tunisia

#### 2.1. Project presentation

The project "Credit line in favour of small and middle-sized Tunisian enterprises", of a value of 36.5 MEUR is included in a framework of long-lasting and consolidated relations between Italy and Tunisia in social, cultural and, above all economic affairs. In the framework of the Italian Cooperation, the credit line of 36.5 MEUR in favour of Tunisian small and medium-sized enterprises, agreed upon during the Fifth Session of the Joint Commission held in Tunis in June 2004, has been preceded by several similar initiatives in the course of previous years.

The financial outlay was approved by the Committee of Directors of the Ministry of Foreign Affairs with decision No. 7 of 30 July 2007. The subsequent protocol of agreement was signed on 25 October 2007 and became operational on 1 April 2008. The Banque Centrale de Tunisie's interbank circular note was issued on 16 June 2008, and on that date the credit line became fully operational.

The general objective, as described in the programme document, is to "contribute to the realization of Tunisia's 11th development plan, in terms of GDP and employment". Concerning, instead, the specified objective, "the initiative will have to contribute to the promotion of private investment through the mobilization of special external resources."

The credit line is thus intended to support the development of Tunisian small and medium enterprises through the concession of credits on favourable terms (compared to conditions normally existing on the Tunisian credit market) for the purchase of equipment and machinery in Italy.

The funds for the project have been put at the disposal of the Tunisian Government in the form of a credit the concessionality level of which is 40% and which will be in the care of the Tunisian banking system. Resources from the credit line are earmarked for the purchase of machinery of Italian origin, while up to a maximum of 35% of the sum total handed over as credit may be used by the Tunisian businesses for the purchase of machinery and plants from local or other foreign sources.

The credit is long-term (up to 10 years) to overcome the limits of the local banking system's resources (which are, for the most part, short-term) in favour of the Tunisian small and medium-sized businesses. The maximum reimbursement term is, therefore, 10 years, while the longest grace period is 3 years. The maximum sum available for credit is 3 MEUR for Tunisian enterprises and of 5 MEUR for joint Italian-Tunisian businesses. The minimum amount is fixed at 100,000 Euro.

The project's overall budget totaled 36,860,000 Euros of which 380,000 € allocated as a gift to support technical assistance expenses (for 300,000 €), promotional activities (for the sum of 30,000 €), 30,000€ for the final evaluation (30,000€) and auditing (20,000€).

The credit line, totally utilized, allowed the financing of 62 enterprises for a total outlay of 36,422,622.11 Euros on the available total of 36,500,000 €. The contribution in local currency was utilized by only one of the 62 beneficiary enterprises for a total of 521,598,180 Tunisian Dinars (for an equivalent value of 274,901.54 €). The residual amount totals 77,377. 89 €.

#### 2.2. The project's pertinence and relevance

The project's pertinence appears **excellent in the light of all of Tunisia's macro-economic indicators** and of the Country's political economy priorities. Furthermore, the project is inserted in a framework of consolidated relations with Italy not only in the commercial, but also in the social and cultural fields. Pertinence with respect to job creation

indicators, appears to be **very high** even if the circumstance has to be noted that the **issue of female employment** has not been considered a priority.

### **2.3. Validity and quality of the project's logical framework**

The logical framework, although **realistic** in terms of the expected results, presents **some problems** in relation to objectives, indicators and activities. An overall evaluation of the logical framework shows that it was conceived as a simple procedural obligation rather than as an authentic instrument for programming and verifying the programme's implementation.

### **2.4. The project's efficiency**

The project has involved a great number of actors either directly or indirectly tied to the themes concerning access to credit for small and medium-sized enterprises. Precisely this capacity, as well as **an excellent understanding of the context and of its key actors** is at the base of its **success**.

Even though the project's efficiency appears to be **excellent**, this evaluation, however, has to consider the **criticisms levelled by the businessmen at the intermediary banking institutions**, the behaviour of which, disregarding the question of guarantees, but in view of a lack of flexibility and a scant propensity to dialogue and negotiation, appears partially to attenuate the effectiveness of the Italian credit line.

### **2.5. The project's effectiveness**

The project's effectiveness appears **excellent** for the spending capability of available resources and for the use of funds for technical assistance and promotional activities. This is also due to the excellent ability and competence of the personnel attached to the Cooperation Office in Tunis. Some **minor criticisms** should be pointed out concerning the timing for the approval and the distribution of funds.

### **2.6. The project's sustainability**

The project presents an **excellent sustainability potential** also facilitated by the fact that it has been preceded by six other credit lines with similar implementation rules. Thanks also to the competence and to the excellent organization of the Tunis Cooperation Office's internal structure, the vast involvement of Tunisian banking institutions and business organizations (including the Chambers of Commerce) as well as that of other institutional partners, particularly the Banque Centrale de Tunisie and the Tunisian Ministry of Cooperation, the project has activated procedural mechanisms which are clear to all the actors and which are perfectly replicable in the future. In this sense, it is worth reminding that a further Italian credit line is being finalized with similar implementation modalities, with a ceiling of 73 MEURO, which, in our judgement will be able to avail itself of the highly positive experience by the various actors in the realization of the project being here evaluated.

### **2.7. The project's impact**

The impact is **globally highly relevant on the businesses' internal dynamics** (turnover, production and internal organization systems, outlet on new markets, etc.) and on job creation, but appears **negligible with respect to the social and territorial environments** in which the business is inserted.

### **2.8. The project's visibility**

Thanks to the quantity and to the quality of promotional activities and public events, to the human relations capabilities of the Tunis Cooperation Office's staff and to the vast number of actors involved, the project's visibility is **excellent**. It is worth pointing out, furthermore, that awareness and visibility of the project were further enhanced by two additional factors: its capillary presence in the entire country through the banking institutions and the business organizations (chambers of commerce, sector associations, etc.) and the good reputation of Italian products.

### **2.9. Functionality of the implementation mechanism**

The efficiency of the implementation mechanism has appeared, **on the whole, good**, even if **some critical aspects** of a "structural" type have emerged concerning the project's very conception, particularly with regard to the absence of monitoring or technical assistance functions in the follow-up of the funding, as well as the episodic, at times excessively informal working of the piloting and orientation organisms.

### **2.10. Conclusions and recommendations**

The project, thanks to its **excellent results** and to the definition of an efficient implementation methodology, can be considered as an authentically good example of Italian cooperation, and, more generally, on an international level for the type of intervention tied to aid credit for the support of small and medium-sized enterprises.

The evaluation effort, however, has shown some aspects **susceptible to improvement** which are set forth in the following recommendations.

- a. It would be desirable to attribute **greater attention to the logical framework** which ought to be considered as an authentic ongoing tool for programming, implementation and verification of the impact on the reality concerned.
- b. Greater attention would be desirable to the **technical assistance function**, with the inevitable implications on the allocation of resources. Technical assistance cannot be limited to the project's launching and promotion, and to the financial approval phase, but also has to include **monitoring activity and the collection of data on the project's impact**.
- c. As a consequence it would be desirable for the Tunis Cooperation Office to be involved in **capitalization activity**, both in terms of results and impact, and the identification of good practices.
- d. It is desirable that means of **controlling the conditions imposed by the banking institutions** be introduced, with the object of identifying lack of flexibility problems.
- e. It is, finally, desirable that **piloting and orientation organs be really functional**, both concerning the various implementation themes and the impact of the social and economic reality at which the project is aimed.

### 3. Results of the evaluation of the "Private sector development programme in support of small and medium enterprises through the Palestinian Private Banking system" in the Palestinian Territories

#### 3.1. Project presentation

The project "*credit line for the support of small and medium enterprises through the Palestinian Private Banking system*" followed an evolution parallel to the modifications that the project underwent through the years. If, in fact, activities were supposed to be implemented as of the year 2004, the project, in reality, only began in the year 2010, after a series of setbacks tied to the **political problems** which have characterized the occupied Palestinian Territories.

The programme, funded by the Ministry of Economy and Finance, on the proposal of the Italian Ministry of Foreign Affairs Cooperation Directorate, began following the agreement signed at Ramallah on 22 July 2004, between the Italian Ministry of Foreign Affairs (MAE-DGCS) and the Palestinian National Authority (PNA, represented by the Ministry of Finance (MoF).

The project's general objective was to **support the economic development and improve the living conditions of the Palestinian population through the concession of soft loans to small and medium enterprises** in the private sector, with the intent of stimulating the creation of jobs and favouring economic growth.

The programme agreement envisioned a credit fund of 25,000,000 € in three instalments, the first of 9,000,000 € and the other two of 8,000,000 € each.

The programme has a total cost of 25,422,250 €, of which 25,000,000 € earmarked as a **soft loan** destined for the creation of a credit line to the benefit of Palestinian small and medium-sized enterprises, and 422,250 € considered as a Concession Fund (of which 249,000 € were destined to the creation of a local Liaison Office and 173,250 € assigned to technical assistance, to monitoring and to programme supervision). The soft loan was granted at a 0.00% p.a. interest rate, for a reimbursement period of 38 years and an 18 year grace period during which only interest is due.

Between January 2006 and July 2007 the programme was interrupted because of the situation of **political instability**. Once normal activity resumed, it was only in December of 2009 that the first credit instalment, equal to 9.000.000 € was credited at the Arab Bank. In June 2010 the agreement (On Lending Agreement) was signed with the four commercial banks who were participants to the programme, in which the means of access to the credit were specified and **in October 2010 the credit line became operative to all effects**. In 2011 an **agreement revision process** was set up with the aim of redefining some problematic aspects and some failings in the programme which was completed in August 2012.

The projects actual results are **very much beneath the expectations** since the credit line has **practically not been utilized**: at the date of April, 2013, **only three business concerns** had received financing from two of the four banks involved in the project for a total of 930,000 €, that is, just 3.6 % of the available resources.

#### 3.2. The project's pertinence

The project's pertinence, which yet could have positive aspects tied to the role of the private sector in the country's development, has been **globally very low**, both for the evolution of the environment from the period of formulation to the moment of implementation, and for factors tied to the system of conditions and of criteria for access to financial benefits, as well as, finally, for the low attraction of Italian machinery in a context of extremely reduced commercial relations between Palestine and Italy.

### **3.3. Validity and quality of the project's logical framework**

The project's logical framework presents **considerable shortcomings** in all its parts, beginning with the results which have no relation to the declared general and specific objectives.

### **3.4. Project's efficiency**

With just **3.6 % of the resources** having been utilized, the project's efficiency is deficient. This highly negative assessment will necessarily have to be reviewed in the light of the ongoing reformulation of many aspects concerning both the targeted beneficiaries and access conditions and functioning of the credit line itself.

### **3.5. Project effectiveness**

Assessment of the project's effectiveness is **highly negative**. If the credit line has, in fact, not been used, the accompanying funds, such as those devoted to technical assistance furnished by the PMU in reality were terminated before the project itself could become operational. As in the case of the project's efficiency this assessment will have to be reviewed in the light of the project's reformulation.

### **3.6. Project sustainability**

The project's sustainability has been **totally deficient**. The project's recent reformulation could represent a starting point to create a basis for better sustainability.

### **3.7. The project's impact**

The project's impact is **virtually nonexistent**. Because of the extremely low number of businesses involved and of the concluded loans (3.6 % of the funds available on the credit line), the processes of economic growth, job creation and income enhancement associated with the benefits of the credit line are negligible. Rather than an absent impact, one should consider this as a **"failed impact"** in order to bring to light the potentialities that the project failed to address. In this sense, the programme's revision could represent a good opportunity for its renewal, providing that both the new context and its economic dynamics as well as the structural nature of the Palestinian small and medium enterprises be given serious attention.

### **3.8. The project's visibility**

The assessment on the project's visibility has to be **highly problematic** because of the insufficiency of promotional activities, of the irrelevance of realizations obtained and of the limited number of actors involved, particularly the Palestinian banking institutions and business organizations and associations. In this framework the visibility of the MAE-DGCS is not only extremely limited but it is also characterized by a negative image, because those who did approach the credit line facilities have received a negative opinion.

### **3.9. Functionality of the implementation mechanism**

Also in expressing an assessment of the programme's implementation procedure's functionality it is necessary to distinguish between the original procedures and those which, instead, should characterize the future implementation phase of the credit line. Actually, the procedures and the implementation originally devised, in terms of accessibility of the small and medium enterprises and of their relative individual investment projects, have proven to be **excessively complex**. The system that the project intends to adopt for its new, future phase is more functional and simple, even if strong doubts remain on the possibility realistically to involve the banking institutes, which have a fundamental implementing role, and of the business organizations the role of which could well be decisive in ensuring an efficient information on the access possibilities to the credit for the Palestinian small and medium-sized enterprises.

### **3.10. Conclusions and recommendations**

The project has been strongly influenced by its **twofold "original sin"**: on the one hand the failure to understand the dynamics and tendencies existing within the Palestinian context, and, on the other hand, undervaluing the absence of a consolidated tradition in commercial relations between Italy and Palestine.

Both these aspects are due to a phase of the project's **elaboration and formulation which was lacking of a feasibility analysis**. In reality, the promotion of a credit line in favour of small and medium enterprises which have no interest because they prefer informal economic and credit circuits, and entrusting the implementation to intermediary banking institutes which not only fail to see any advantages but solely potential problems, signifies forfeiting at the origin the programme's possibilities of success.

On the basis of the problematic results emerged from this assessment exercise, it appears necessary to elaborate a new approach which should aim at the involvement of new actors and thus enhance participation to the programme.

These measures, however, will never ensure the project's success if they are not accompanied by **concrete and efficient forms of support to the Palestinian small and medium-sized enterprises**, concerning the **central question of real guarantees** for access to the credit, as, indeed, has been done by the French cooperation for its own credit line. In this sense, it would be desirable to create guarantee and risk management mechanisms, involving Guarantee Funds, such as, for example, the EPCGF-European Palestinian Credit Guarantee Fund.

Finally, attention is called on the need to **strengthen** the PMU's mandate, to include promotional activities and the coordination of technical assistance initiatives for the small and medium-sized enterprises.

#### **4. Evaluation results for the "Support programme for small and medium enterprises in Egypt"**

##### **4.1. Project presentation**

The Italian credit line for the Egyptian small and medium enterprises was established by the Italian Government in 1999, to support the private sector development in Egypt. According to the agreement, the soft loan should have been made available to potential beneficiaries through the local banking system, for the **financing of long-term industrial investments**.

The project was meant for the **support of investments** (purchase of material, technological transfer, training, technical assistance, industrial licenses and patents). Furthermore the furnishing of assistance was offered for the presentation of financing requests to the banks. Goods and services furnished through the credit line would have had to be of Italian origin. However a percentage of the funding – up to a maximum of 20% of the total – could be used to cover the costs of goods and services of Egyptian origin through local contacts or through the intermediary of the Italian supplier.

The funds should have been transferred by the Italian Government to the Central Bank of Egypt (CBE), and then transferred by the CBE to the Commercial Banks which should have assumed the role of intermediaries with the final beneficiaries, that is the small and medium-sized enterprises. In reality, **only one bank** was involved in the concession of credits to private businesses: the National Bank of Egypt (NBE). Other actors involved in the implementation of the project are UNIDO's "Investment Promotion Unit" and the Local Technical Unit of the Italian Cooperation (UTL). The Italian funding of UNIDO IPU mission came to an end in December 2008, while the unit continued to provide assistance to GAFI up to December 2009. From that date a direct management role was undertaken by the UTL and the NBE.

In adherence to the priorities declared by the Italian and Egyptian Governments, preference should have been given to those businesses which, by using the credits, would be creating **new job opportunities**, the purchase of innovative machinery and of environment-friendly technologies.

The credit line became **operative from 2006**, when the financing convention was signed. After the signature of the agreement, the Italian government transferred the first instalment for the CBE. It has to be noted, however, that it took **5 years** for the agreement to be signed. **12 enterprises have been financed** through the credit line, by means of 15 loans.

Both the Egyptian Central Bank and the National Bank of Egypt-NBE (intermediary bank) have adopted a **conservative approach** on the concession of loans, concentrating their attention on guarantees rather than on the industrial level.

##### **4.2. The project's relevance**

The project is marked by some aspects which render it **very relevant** within the environment in which it is inserted, concerning, in particular, the identification of the beneficiaries (small and medium-sized enterprises), the possibility of facilitating access to Italian technologies, the low cost of the credit, the intension to enlarge the number of actors involved in the provision of credit to private sector. However, the **project's pertinence has been limited** by the fact that procedures and modalities for the reduction of risks undertaken by the bank involved have not been modified within the framework of the project itself and by the lack of opportunity for support to the qualification and to the strengthening of the capacity of the enterprises involved in the project.

##### **4.3. Validity and quality of the project's logical framework**

The project has not been endowed with a well formalized logical framework. This has caused **limits and difficulties** both in the project's management, and in its monitoring as well as in its evaluation. The lack of well-defined objectives and expected results has been an obstacle to the identification of shared strategies concerning the use of the credit line.

#### 4.4. The project's efficiency

In spite of the fact that most of the resources have been employed, **the project's efficiency appears low** with respect to the prospect of sustaining the development of the small and medium enterprises and to those of influencing the innovation of the credit system. Few businesses have been able to benefit from the Italian credit line, and the majority of these would, in any case, have been capable of access to credit even in the absence of the Italian project.

#### 4.5. The project's effectiveness

The project's effectiveness can be observed from various perspectives, but, in general, **it appears very low**. In fact, the project entailed a considerable effort in terms of technical assistance, producing very limited results. For the most part, also from the point of view of the businesses involved, effectiveness suffered a great deal because of bureaucratic delays and slowness. Also by comparing the initiative's overall cost and the results obtained in terms of the development of small and medium enterprises and of the credit system, effectiveness has been scarce.

#### 4.6. The project's sustainability

Even though the investments undertaken by the businesses involved appear generally sustainable, the project in itself has a **very low sustainability level**: strategies aimed at allowing the continuation of the credit line in the long term have not been identified or implemented.

#### 4.7. The project's impact

Notwithstanding the considerable impact on the businesses directly involved in the use of the credit, the project's general impact appears – at present – **very limited**. Some potential impacts, concerning the introduction of innovative procedures in the credit system and the opening of new forms of contact between credit institutes and subjects who sustain the small and medium-sized businesses, are not discernible, as, indeed, is the case for the impact on subjects engaged in the support to the small and medium-sized businesses.

#### 4.8. The project's visibility

Information on the project was spread mainly through direct and informal means of communication, aimed at individual businessmen. Few activities were undertaken with the aim of spreading information in a more general manner and to involve the bulk of the business environment. As a consequence, the project has had **limited visibility**.

#### 4.9. Functionality of the implementation mechanism

Even though the financing convention defined some management structures and their role in a clear manner, these have functioned only **partially** during the project's implementation. The direction committee, on the one hand, has concentrated its activity only on some aspects, while a gap was widening among the project's other stakeholders – in particular between UNIDO-IPU and the NBE.

Following the closure of UNIDO's activities, the various partners' roles have been partially redefined, but neglecting to keep in mind the need to separate the functions assigned by the project to various subjects (such as those who provide technical assistance and those who provide qualified human resources). In this context the UTL has sustained a particularly active role, but with **resources which were absolutely insufficient** for the task.

A further critical element in the management of the project is given by the **absence of involvement of businessmen** and of their representatives in the project's management.

#### 4.10. Conclusions and recommendations

From the assessment analysis, an **inadequacy of the logical framework** and a deficient feasibility study have emerged. This has determined a lack of clarity as to the project's objectives and to the expected results, with the resulting absence of efficient strategies for the attainment of the goals.

This exercise in the definition of goals, results and strategies for their attainment has to be **shared with the programme's key actors** and, in particular, with the intermediate beneficiary organizations and credit institutes. These actors need to find common interests, otherwise the project risks failure in inserting itself in the country's real dynamics. In this sense, it is fundamental to study the average range shown by the funding in consideration of the business reality and not of the European definition of small and medium-sized businesses, which, in many countries, is quite far from reality.

Concerning job creation strategies, but also those involving technological innovation, particular attention should be reserved to the **funding of new businesses** as well as to the **territorial and geographic equilibrium**.

Finally, a project involving credit to small and medium enterprises has to anticipate that funding be undertaken only in the presence of real guarantees. In this sense, banks ought to reserve some attention also on the **worth of the business project**.

## 5. Elements for a comparative analysis on the instrument of aid credit

### 5.1. Some methodological points

Even though aid credit is a well defined cooperation instrument, with its own characteristics and with codified functioning mechanisms, it is difficult, from a methodological point of view, to undertake a comparison among the three projects analysed in this report. Caution is imposed by various factors: the **difference in the political and institutional contexts**, the peculiarity of the economic systems, and not least, the dimensions of each single country..

The mission, therefore, opted for the realization of a **“positive comparison”**, that is, an operation which, starting with each project’s positive experiences and on the basis of constants discerned in collective behaviour and of shared phenomena tied to the involved actors as well as the adopted implementation mechanisms, can identify ingredients or pre-conditions at the base of the success of a development cooperation project based on aid credit.

### 5.2. Conditions for success

For each of the three projects the assessment analysis allowed the formulation of specific recommendations and the identification of lessons learned which can be taken into consideration in the future. These reflexions, contained in the three chapters each of which is dedicated to one project, have been useful for the formulation of a **“positive comparison”**, aimed at identifying some conditions for success which are illustrated hereunder.

- **The logical framework.** Any project, as a matter of fact, needs accompanying strategies the elaboration and implementation of which require results and objectives that need to be established beforehand. The logical framework, therefore, must not be considered as a bothersome bureaucratic necessity, but rather as a vital instrument to determine the project’s life in its every aspect.
- **The aid credit’s pertinence.** The aid credit’s modalities cannot be the solution of all the problems of the small and medium enterprises for at least two reasons. Firstly because small and medium enterprises often have an extremely informal character. The second reason is tied to the fact that some countries suffer from a liquidity problem in the banking system while others, instead, have a strong excess liquidity deposited in the banks which is not being used to the benefit of the businesses.
- **The real interests of the banks.** The behaviour of the banks is a decisive factor in the success of credit projects based on aid credit, because often funds are granted only to those who are able to offer real guarantees and not, instead, to those who present valid business projects. The banks, therefore, show an excessively conservative attitude bent solely on the elimination of risk.
- **The existence of a favourable context.** An aid credit project needs to operate in a favourable context between Italy and the beneficiary country, both in terms of commercial exchange and of the existence of consolidated economic and cultural ties between the two countries. This means that the clause which determines the obligation to use part of the funding for the purchase of Italian machinery and technology cannot function in the same way in every country.
- **Attractiveness of Italian products.** Also in the presence of strong commercial ties between Italy and the beneficiary country, it is undeniable that Italian machinery and equipment will be more expensive than those from other emerging countries, such as, for example, the Asian countries. In this sense, Italian supplies are compatible – on the one hand – with quality production on the part of businesses in the beneficiary country and – on the other hand – with investments which are redeemable only in medium or long term periods.
- **The status of the businesses.** In projects of aid credit, often the businesses are considered only as beneficiaries and not as protagonist actors. This limited status can prevent the active involvement of the businesses and of their intermediate organizations in the formulation of the programme, with sometimes paradoxical effects on the definition of the characteristics of the funding made available through interventions, which can be too large for the reality of the small and medium sized businesses. An aid project should rather be matching to the specific context of the small and medium-sized business in each country, avoiding the automatic and passive adoption of the concept of small and medium-sized business existing in the EU which is very distant from the reality found in many countries, beneficiaries of this type of intervention.
- **The role of technical assistance.** A credit aid project entails the involvement of a number of actors with interests which, in some cases, can be diverging, particularly if a definition is not agreed upon on mode of action and shared goals. Technical assistance, as a third party, can facilitate and accompany the various actors on a shared



path, which, in fact, is indicated in all its phases by the project. In order to fulfil this role efficiently, technical assistance must be assigned adequate resources.

- **Promotional activities.** An aid credit project cannot do without the adoption of efficient steps to ensure the capillary and transparent spread of information on the access opportunities to the credit on the part of the small and medium-sized businesses.
- **Monitoring.** A credit aid project cannot confine itself to allocate resources and to trust on the automatic functioning of the procedures envisaged for the attainment of the desired objectives. It is indispensable that businesses be followed also in succeeding phases, both in the training on the use and maintenance of new machinery and in the management of reimbursement plans.
- **Capitalization and production of knowhow.** It is necessary to foresee, on the part of the technical assistance, – aided by other resources – a capitalisation activity of the project's results, aimed at the production of knowhow. This action is indispensable both for the life of the aid credit project's orientation and piloting organs and as a basis for the projects' continuation or extension.
- **Project's orientation and piloting.** It is indispensable that aid credit projects be accompanied by the formulation of strategies and by the reaching of decisions based on an adequate understanding of local reality. In this sense, the management of the projects cannot confine itself to the mere statistical evaluation of the funding but has to envisage also the effects and the impact of interventions on the business reality and on the social and territorial context.

## 1. INSTITUTIONAL FRAMEWORK

With an assignment dated 21 December 2012, repertory No. 1592, Office IX of the Development Cooperation Directorate of the Ministry of Foreign Affairs tasked the STEM-VCR Company to undertake an **independent evaluation** of the following development cooperation projects: “Credit line for Tunisian small and medium-sized businesses”, in Tunisia; “Development programme in the private sector in support of small and medium enterprises through the Palestinian Private Banking system” in the Palestinian Territories; “Programme for the support of small and medium sized businesses” in Egypt CIG 4622190FD6.

To this end, and in order to respect a **methodological homogeneity** in the evaluation exercise of the three projects in Tunisia, in Palestine and in Egypt, essential for the identification of data for a potential future comparison, the STEM-VCR Company created a **central team** with the task of coordinating the theoretic and methodological approach as well as the technical tools for the gathering of data, and **three national teams**, one for each of the countries involved in the evaluation. In the formation of these four teams particular attention was reserved to the aspects of **disciplinary integration** and **language competence** (English and Arabic for Egypt and the Palestinian Territories, French and Arabic for Tunisia).

The central team (or **central evaluation nucleus**) had the following tasks:

- Formulation and operational implementation of methodological and technical evaluation tools;
- Definition of an evaluation plan; consultation with the Italian actors involved in the multiple identification, formulation and implementation phases of the evaluated development initiatives;
- Elaboration and validation of gathered data and information;
- Drawing up of an evaluation report in its preliminary version.

The **three national teams** – each formed by a national expert and a member of the central nucleus – were assigned the following tasks:

- Definition of the context and of the national dynamics in which the initiative has been inserted, also through the consultation of key persons;
- Organization and predisposition of field work;
- Consultation activities with the beneficiaries and the subjects involved in the project’s implementation in each of the three interested countries, through in-depth interviews;
- Distribution of questionnaires to the beneficiary businesses;
- Gathering of economic data at a local level;
- Participation in consultation activities and in an evaluation e-conference for each of the three countries interested by the evaluated projects.

The experts, members of the central nucleus, participated in the drawing up of the report, while the local experts evaluated its content. The local experts were also involved in the distribution of structured questionnaires (in Arabic, English and French, according to the three national contexts and to the linguistic culture of the interviewed actors).

The following experts were part of the central team:

- Maurizio Floridi, senior expert and central team coordinator, sociologist with a lengthy experience in the formulation and in the evaluation of development cooperation projects, particularly regarding assistance to small and medium enterprises in Tunisia;
- Gianfrancesco Costantini, senior expert and responsible for methodological aspects and technical tools, social economist and evaluator with a long evaluation experience in the South and East Mediterranean area (particularly in the Palestinian Territories);
- Alessandro Costa, senior expert, jurist and commercial law lecturer, expert in legal matters tied to credit topics concerning small and medium enterprises in the Southern Mediterranean area (with particular knowledge of Tunisia and Egypt);

- Andrea Floridi, junior assistant and responsible for macro-economic analysis and econometrics, development economist with particular regard to informal economy.

Concerning the three national teams, their composition has been as follows:

- ✚ **Tunisian team:** Maurizio Floridi (manager), Yassine Chaed (Tunisian expert in support of the small and medium enterprises and in business credit systems) and Andrea Floridi;
- ✚ **Egyptian team:** Jamal Atamneh (of Palestinian nationality, team manager, economist and expert in support to small and medium-sized businesses), Bassem Adly (Egyptian economist and expert in credit systems to small and medium-sized businesses), Gianfrancesco Costantini (supervisor of methodological operations);
- ✚ **Palestinian Territories team:** Gianfrancesco Costantini (manager), Luna Shamieh (evaluator of Palestinian nationality and expert in the support to small and medium-sized businesses) and Andrea Floridi.

The teams formally began their activity on 6 March 2013 after receiving the go-ahead from the Ministry of Foreign Affairs.

The evaluation exercise took place in three distinct phases:

- a. A **preparatory phase**, which began in the month of January and which entailed a briefing meeting on 6 March 2013, in the Ministry of Foreign Affairs with the participation of the interested Offices; during this phase the basic documents concerning the three projects were taken in and analysed, as well as the study of macro-economic data concerning the three countries with particular attention to problems regarding small and medium-sized businesses, and, more specifically, those concerning access to credit;
- b. A **field-work phase**, from 7 March to 12 May 2013, which saw the experts engaged in missions in the three countries, particularly:
  - From 7 March to 29 March 2013, and from 8 April to 5 May 2013 for the Palestinian Territories; the first field period also had a more general value since also the pretesting of technical tools took place and the general methodology of evaluation for the three countries was fine-tuned;
  - From 15 April 2013, to 6 May 2013 for Tunisia;
  - From 22 April to 12 May 2013 for Egypt;
- c. The **final report drawing up phase**, during which information gathered in the field was verified through further documentary analysis, aimed meetings, interviews and contacts with the Ministry of Foreign Affairs and with the Central Technical Unit of the DGCS. In the course of these meetings and contacts, the team of experts further verified the principal conclusions reached in the evaluation exercise also with the intent of verifying the degree of shared opinions with the institutional actors involved in the project.

## 2. THE THEORETICAL AND METHODOLOGICAL FRAMEWORK

### 2.1. Evaluation objectives

According to the ToR, mentioned in annex 1, the evaluation of the three projects should have:

- Expressed an assessment on the objectives' **relevance** and on the degree of their accomplishment;
- Expressed assessments on the **effectiveness, efficiency, impact and sustainability** of the projects;
- Examined the projects in their entirety, to identify **good practices and lessons learned**, in order to use them as a theoretical basis to develop future assistance packages;
- Analysed the strategies and the means of implementation and furnished **recommendations** to be integrated in the aid credit programmes in Tunisia, in the Palestinian Territories and in Egypt;
- Kept in consideration sustainability factors and the impact that the implementation of the programmes will have on the **socio-economic conditions** of the countries to which they apply;
- Estimated **the results and the effectiveness** of the aid credit programmes.

### 2.2. Evaluation criteria

Concerning the evaluation criteria, in agreement with the ToR, the evaluation team undertook its activity following **principles defined by OECD/DAC** (responsibility on the evaluation objectives; impartiality and independence; credibility and transparency; usefulness; participation of involved donors and recipients; orientation towards feedback) and analysed the three projects keeping in mind the criteria of **Relevance, Effectiveness, Efficiency, Impact, Sustainability**. To these criteria an analysis of the **logical framework's quality** has been added, an analysis of the three projects' **implementation mechanisms' functionality** as well as an **analysis of the projects' visibility** from the point of view of the financial paternity.

### 2.3. The evaluation's theoretical reference framework

The adopted evaluation criteria were employed to undertake an analysis based on the **confrontation between the project and the reality in which it was inserted**. This actually denotes a reality in which – also in terms of recourse to the aid credit mechanism – a plurality of subjects are involved, such as the Ministry of Foreign Affairs itself (specifically through the Local Technical Units), the Ministry of Economy and Finance; the Finance Ministries, the central and commercial banks in the beneficiary countries, the entities entrusted with technical assistance activity, monitoring and supervision; the small and medium enterprises in the interested countries. The evaluation process, therefore, has taken place with reference to all these actors.

The confrontation between the project and the reality in which it is inserted took place at two different levels:

- Consideration of the project in the light of a **"cognitive context"**, which includes representations of the existing problems, the identification of possible solutions, etc., particularly with reference to the evaluation of the design's relevance and validity, but also – albeit to a lesser degree – to its impact and sustainability;
- Treating the project as an **"operational context"**, formed by actions, resources, relationship modalities among the subjects involved, etc., particularly concerning the evaluation of its effectiveness, efficiency, impact and sustainability; in this context also management mechanisms and communication dynamics were taken into consideration.

The reality in which the analysed cooperation initiatives were implanted was concretely represented by the cognitive context (i.e. the expectations, the goals, the representations, etc.) and the operational context (resources, actions, possibilities and opportunities) of the **involved local subjects**, both as operational "managers" of the funds made available through the aid credits, and as "final beneficiaries" or users of the credits themselves.

The comparison among these diverse cognitive and operational areas took place, within the evaluation, through the analysis of some processes and dynamics connected to the three cooperation initiatives. To this end the following aspects were taken into consideration:

- **The identification and the formulation of the initiatives:** the actors involved, the methodologies and the institutional dynamics;
- **Implementation and management dynamics:** the project's management structure; the monitoring procedures; obstacles or facilitating factors which emerged in the course of the implementation of the essential actions; the actors involved in the activities, the involvement modalities of the various actors; the missing "actors" and "structures";
- **The dynamics connected with the relations among the key actors of technical assistance and credit** (project management units in the various countries, central bank or Ministry of Finance, commercial banks): the cooperation mechanisms; communications; the transfer of resources and competences; action coordination in relation to the beneficiaries, etc.;
- **Communication dynamics:** communication within the interventions; public communication; communication among the principal actors; the choice of information recipients; the effects of communication activities;
- **The relationship between the initiatives and the implementation of economic agreements between Italy and the countries considered:** direct fallout on commercial exchanges; technology transfer initiatives; investments; cultural cooperation, etc.;
- **The creation of new business ventures and the dynamics concerning their sustainability: new financed businesses; development of financed businesses; new induced businesses; mortality rate of new businesses; resistance of financed businesses to the crisis; diversification of the local entrepreneurial framework; cooperation dynamics among businesses, etc.;**
- **The innovation process connected to the creation and financing of small and medium enterprises beneficiaries of the initiative:** process and product innovation investments; new applied know-how; transformation of management processes; creation of know-how management and transfer circuits; recovery or loss of existing technologies; situations of dependence or of autonomy in the management of production processes and of technologies;
- **Job creation processes:** new positions created in the financed businesses or in connected businesses (economic development, business connections, networks, economic groups); consolidation and stabilisation of jobs; jobs obtained by women or other subjects disadvantaged in the labour market; qualified labour; added value created by labour and workers' income;
- **Processes related to turnover and productivity of small and medium-sized businesses:** progress of turnover in financed and connected businesses; progress of productivity;
- **Processes connected to access to credit:** progress in access to credit for businesses in general, for financed businesses and those connected to them; the functionality of credit mechanisms; rate of credit recovery (where applicable); credit guarantees, costs, contribution given by the mobilization of new resources in connection with the initiatives;
- **Local development processes and dynamics:** coherence with development plans at the local level; contribution to development by clusters and production lines; involvement of local subjects connected to the businesses; dynamics related to the local presence of services for the businesses and activities connected with their existence (vocational training, education, health services, family services), actions of "corporate social responsibility"; changes in the environmental situation and in the availability of environmental management in the territory in which the businesses are found, changes in the relationship among subjects and in social cohesion (e.g. conflict or cooperation between workers and entrepreneurs, cooperation among businesses, between business and administration, etc.);
- **National development processes:** coherence with development plans; contribution of specific sectors to development; means of integration with other ongoing transformation processes;
- **Regional development processes:** coherence with the economic regionalisation processes and with the dynamics connected to agreements with the EU participation of financed businesses in regional partnerships;
- **Development policies at various levels:** compliance of activities with internationally defined economic policies (e.g. OECD, WB, etc.); introduction of elements deriving from experience in interventions on economic development policies of the involved countries and of international organizations (e.g. UNIDO, WB, Arab Development Bank, etc.).

### 2.3.1. Some specific elements regarding impact evaluation

To consider **impact** in the context of the evaluation of recently concluded development projects (in the Palestinian Territories the project is, as a matter of fact, still ongoing since only a small part of the allotted funds has been used) implies the adoption of a concept of “**relative impact**”. In fact, an effective impact evaluation concerns the identification of changes which are deep, long period and widespread, and determined by a development project and requires that the actions be concluded since a longer time, as well as an assessment, difficult when not impossible, of the diverse processes and dynamics which influence the territory subject to observation. In the case of the ex post evaluation done a limited time after the closure of the projects – as in this case – it would rather concern an evaluation of desired or undesired consequences which the project has caused in a middle term: in the case of the projects now under examination, these can be considered in a double light: “impact” on businesses and “impact” on the local and national context.

As far as **impact on businesses** is concerned, the following aspects appear relevant.

- **The classic economic parameters** (according to the definition given by the World Bank in its “*Key performance indicators handbook, Washington, 2000*”) such as variations in turnover, productivity, added value, export capability, etc.
- **The institutional dimension**, such as, for example questions regarding capitalization and financing, which often represent, for the small and medium-sized businesses, insurmountable weaknesses, enough to bloc economic and productive activities. The “family” dimension which is characteristic of many small, but also some medium-sized, businesses, is not compatible with the need to capitalize, nor the adoption of complex financial measures to manage indebtedness over medium and long term, with strong imbalances in the liquidity essential to their functioning. The very legal structure of small and medium enterprises often limits growth and development capability (difficulty to access credit for lack of adequate guarantees, shortage or lack of financial products, such as leasing, to sustain investments in material and equipment), and legislation often appears too complex to bear the institutional modifications necessary to face competition in ever more aggressive emerging markets.
- **Programming orientation**, in terms of technical, financial and strategic planning ability, in the mid or long term (presence of a development plan, marketing campaigns or actions, presence of labels, material and/or immaterial investments).
- **Innovation orientation**, which groups all those actions capable of improving the business’ competitiveness, its strategic positioning on the national, regional and International markets, as well as modifications in production techniques, changes in the productive cycle's organization models, the adoption of IT tools both in terms of management (quality control system, storage, administration, etc.) and of production (machinery and equipment).
- **Opening to partnerships and to international markets**, as an essential factor both in the search for new commercial outlets, and for the need to contrast the permeation of local and national markets by products and operators from emerging countries, above all Asian, highly competitive in prices, but of inferior quality even for domestic markets. This category includes all actions by businesses aimed at the widening of productive and commercial horizons through recourse to outside experts and consultants in the field of commercial relations, of production techniques and systems, but also of information technology and accounting and administration management, as well as all other specialist competences necessary for the business to allow its insertion in an economic and commercial context more capable to respond to the challenges posed by the globalization process.

Concerning the **evaluation of impact on the local context, the most relevant aspects are:**

- Dynamics concerning the **local economic context** (clusters, creation of businesses, crisis of the existing businesses, economic diversification, etc.);
- Dynamics concerning the **technological context** (innovation, abandoning or loss of technology, etc.);
- Dynamics concerning the **public policy context** (new policies, new subjects who take part in the policy formulation process concerning businesses, innovation in public policies adopted on the basis of project experience, etc.);

- Dynamics concerning the **social and local territorial context** (employment, qualified employment, opportunities for disadvantaged subjects and women, new subjects involved as entrepreneurs; availability of new services);
- Dynamics concerning the **environmental context** (variation in the pollution rate and in the use of resources, new measures for environment management and protection, new subjects active in environment protection and in the supply of environmental services).

### 2.3.2. Questions raised by the evaluation

On the basis of the contents of the above paragraphs, the evaluation was oriented in the aim of answering the following questions:

- *To what extent has the project – in its identification and formulation process – been capable of resolving local problems concerning business development, access to credit by businesses and the development of economic relations with Italy?*
- *To what extent have planned activities been realized?*
- *To what extent have the project’s management and implementation mechanisms allowed an adequate realization of the activities envisioned in the planning phase?*
- *Which actors, relevant in the business development process at local and national levels, and in the identification and realization of bilateral and regional economic cooperation initiatives have been involved in the initiatives? With which modalities?*
- *With respect to the need of resources necessary to the activities’ implementation, were available resources adequate?*
- *What results were obtained by the activities realized at local level, particularly with regard to the development and modernization of the beneficiary small and medium-sized businesses?*
- *What results were obtained through the activities with regard to the relations between Italy and the interested countries, with particular reference to the realization of economic agreements?*
- *To what extent have the activities generated or favoured, also indirectly, innovation and technological transfer processes among the beneficiary businesses (locally or through the purchase of know-how or technologies from abroad) and in their direct context?*
- *To what extent have the initiatives generated changes with reference to job creation, to the creation of cooperation dynamics among businesses, to the development of new lines of economic production, to social cohesion on a local level?*
- *In which way has the project experience been reflected in local policies or initiatives concerning development and support to the medium-sized businesses, as defined by some of the national governments, by international organizations and by Italian cooperation?*

## 2.4. Adopted approach and methodological principles

### 2.4.1. Approach to evaluation

The evaluation exercise was based on some specific methodological characters, hereunder briefly illustrated.

- A participative approach:** the diverse subjects who took part in or were interested by the analysed cooperation activities were not considered only as sources of information or simple beneficiaries, but as “actors” whose contribution is essential, both in order to understand the processes created by the cooperation initiatives, and to express an opinion on them.
- The integration of information of various characters.** The cooperation initiatives here analysed have entailed dynamics of a very diverse character, which cannot be taken into consideration, described and evaluated by relying on only one type of information (for example, solely on information on concrete results obtained or those regarding the intentions of the actors, or those concerning the adopted strategies, etc.). In particular, in the course of the evaluation, reference was made both to information on concrete events, facts, etc., and to opinions and information on elements with a cognitive character (representations, strategies, orientations and expectations, etc.). In reality, the business creation and development process –

which is at the centre of the three analysed cooperation initiatives – entails a complex of dynamics tied to the expectations and to the strategies of the actors involved, as well as to the operational elements of the context in which they operate.

- c) **Integration of quality and quantity.** In the course of the evaluation, recourse was made both to information and methodological tools of a qualitative type (such as the realization of interviews to “key informers”), information and methodological tools of a quantitative nature (such as the analysis of statistical data and the generation of first degree data through the distribution of structured questionnaires to groups of businesses).
- d) **Integration of different sources.** The accuracy and validity of the analysis were ensured also by recourse to sources of diverse natures and to the introduction of methodological tools aimed at verifying information and the control and comparison of the various sources. In particular, reference was made to three groups of sources: live sources (including informers), documentary sources (i.e. documents and reports) and direct observation (through field visits).
- e) **A differentiated approach.** The three development initiatives taken in consideration are characterized by considerable differences, concerning the countries in which they take place, the financial dimensions, the means suggested for the support of small and medium-sized business, the modalities adopted for access to credit, directly and indirectly involved subjects, the existing legal and local development network, relations with Italy and participation in political and economic dynamics at a regional level, etc. In the course of the evaluation it was therefore necessary to keep these differences in mind, adopting methodological and interpretative tools able to take them into account, but which would allow – at the same time – to identify features common to the analysed development initiatives, both in order to formulate evaluations characterized by a high level of validity, and to determine obstructing or facilitating factors which influenced implementation, in order to identify positive practices and to define recommendations which could be useful for the identification and the formulation of new development initiatives, or to the betterment of their management. In reality, the need to take into account the differences among the considered contexts – and to employ them at their best value – has been one of the motivations for the strong involvement of national experts in the evaluation exercise.
- f) **Comparison.** The comparison among the different experiences encountered in each of the three development programmes and the comparison among the three development projects have represented a further evaluation basis. It was, in fact, possible not only to verify, in absolute terms, the relevance, the effectiveness, the efficiency, the sustainability and the impact of each of the interventions, as well as the validity of their planning but also to carry out a comparative evaluation, useful for the identification, among the elements which contributed to the formulation and the implementation of the initiatives, of those which showed a greater (positive or negative) relevance and those which could become objects of repetition and multiplication (good practices). In order to facilitate comparisons, tools were used, in the analysis of documents, which would “standardize” produced information starting from different procedures and, in the consultation of live sources and in the realization of direct observation activities, functional tools for the collection of comparable information (e.g. interview guides, questionnaires, observation guides).

#### *2.4.2. The involved actors*

**Diverse actors** were involved in the evaluation process, who took part in (or in many ways benefited from) the analysed development projects. These actors were also involved in activities relating to the diffusion of the evaluation results and in follow-up activities. They include:

- **The Ministry of Foreign Affairs’ DGCS**, particularly the Evaluation office, the Central Technical Unit, the territorial Desks, the thematic and sector Desks (including the Economic Affairs Directorate);
- **The Italian Diplomatic Missions** in the interested countries (Egypt, Tunisia and the Palestinian Territories);
- **Experts** who, in the past, have worked in the framework of these projects either on direct assignment by the MAE-DGCS or in that of conventions with particular organizations (e.g. UNIDO for Egypt);
- **Local entities** (Central Banks, ministries, commercial banks) involved in the project management;
- **Business organizations** present at a local level;
- Direct project **beneficiaries**;



- **International donors** present in the project realization areas and involved in similar activities.

#### 2.4.3. *The identification of lessons learned*

For the **identification of lessons and concepts learned** reference was made to a double dimension: one regarding the project itself, and the other regarding the interest aroused by the aid credit formula as an instrument of development cooperation.

Regarding the first of these dimensions, the team took into consideration all the experiences, even if not included in the logical framework or, more generally, by the project's goals, which contributed to the success of a number of activities. In this dimension also **unexpected results** (of course, positive ones) have been included, as well as indirectly caused results.

As far as the second dimension is concerned, the evaluation exercise **went beyond the global assessment on the individual project** to take into consideration aspects of particular interest worthy of consideration for the identification and the implementation of future similar projects.

#### 2.5. **Technical and methodological tools**

The **technical and methodological tools** adopted for the evaluation analysis of the three projects are:

- **Interpretative categories** for the analysis of documents;
- **Semi-structured questionnaires** for "in presence" interviews with qualified informers and for interviews with representatives of entities involved in the cooperation projects;
- **Structured questionnaires** for interviews with proprietors or responsible components of beneficiary businesses;
- **Structured questionnaires** for interviews "at a distance" with informers who are not present (for example business representatives, former officials, or experts with tasks in project formulation and the implementation);
- **Interpretative categories** for direct observation and analysis of businesses which have been involved in cooperation initiatives.

#### 2.6. **Sources**

In the course of the evaluation, three groups of sources have been used: **documentary sources** (such as reports and statistics), **live sources** (such as informers) and **direct observation** of the initiatives and projects financed during the development projects.

The first two groups of sources can, in turn, be distinguished as 1<sup>st</sup> degree or **direct sources**, or 2<sup>nd</sup> degree or **indirect sources**.

The **direct sources** have been the following.

- **Documentary sources:** project documents for the actions taken; logical framework of projects; estimated budget for the projects; final budget for the projects; planning documents at local and national levels; bilateral agreements between Italy and the involved countries.
- **Live sources:** representatives of the unit charged with implementation; representatives of the beneficiary businesses; representatives of other subjects directly involved in the activities; representatives of the national governments and of local administrations; representatives of the Italian government (UTL and Italian Embassies).
- Sources for direct observation: financed businesses.

The **indirect sources** were the following.

- **Documentary sources:** relationship with other cooperation initiatives between Italy and the countries involved; documents concerning small and medium enterprises in the region; other documents concerning

local and International subjects; macro-economic statistics on the main indicators concerning small and medium enterprises and the interchange between Italy and the three countries involved.

- **Live sources:** representatives of international organizations and businesses present in the areas under consideration; other qualified informers.

## 2.7. Methodological difficulties encountered

From the methodological point of view, the evaluation mission was confronted with a series of **difficulties** which caused a revision of original planning.

The first difficulty consisted in several changes in the field visits programme, due to problems connected to the new political scenario in Egypt and above all in Tunisia, as well as to an increase in limitations of movement in the Palestinian Territories, especially regarding the Gaza Strip. In reality, the central team had initially planned the start of field activities in Tunisia, also in order to accomplish a pretesting of technical tools on a limited sampling of businesses. Following the unrest which visited the country after the assassination, on 6 February 2013, of Chokri Belaid, leader of the Unified Democratic Nationalist Party, the largest opposition party, and which provoked a major institutional crisis following the resignation of the head of Government, against the opinion of his own party, the team had to postpone the mission in Tunisia for one month.

In the case of Egypt, at first the chosen candidate to host the start of the field work phase after the postponement of the Tunisia mission, the month of March coincided with a time of popular unrest, which opposed the two factions respectively in favour of and in opposition to Morsi, due to the Egyptian President's assuming of vast powers in the judicial field, making his decrees virtually un-challengeable, in order to protect the working of the Constitutional Assembly tasked with the drawing up of a new Constitution from any obstacle. Also in this case the central team was obliged to reformulate the field work phases and to work on an anticipation of the mission in the Palestinian Territories where, in the end, the pretesting of technical tools could take place.

The second difficulty was caused by the apparent **contradiction** between the need to use a particular methodology and a shared approach to evaluations, also in the aim of undertaking a functional comparison of the idea of aid credit programmes aimed at small and medium enterprises as an instrument of cooperation, and the profound differences among the three contexts in the interested countries. These differences, among other things, also concerned the very establishment of projects which, in reality, had widely differing targets, results and implementing systems.

To overcome these difficulties, the team chose to **standardize some methodological aspects**, such as a qualitative analysis common to all three projects, while for some aspects of the quantitative analysis, such as those regarding the in depth interviews with beneficiary businesses, although utilizing the same technical tool (a structured externally-administered questionnaire), the results of this analysis have an indicative value. While in the case of Tunisia the sample of interviewed businesses (15 concerns out of 62 beneficiaries, or 24.2%) is highly meaningful for the total of beneficiaries because it was possible to maintain a stratification which took into account all criteria (type of intervention, geographic area and activity sector), for Egypt and the Palestinian Territories the results of this type of analysis cannot have a general value, since the number of businesses involved in these two countries, though in general terms higher than in Tunisia (in Egypt 5 concerns out of 12 and, in the Palestinian Territories, the total number of three beneficiaries of the credit line) do not furnish sufficient methodological guarantees in terms of a possible generalisation.

This difference in the treatment of quantitative data brought about the adoption of evaluation concepts and drafting styles specific for the three countries, even if comparison possibilities among the three contexts have been safeguarded independently from the number of businesses involved in the respective projects.

The third difficulty, furthermore, is tied to the incomplete, only partial availability of an **exhaustive** documentation regarding the three projects. While for Tunisia the team could count upon an extraordinarily complete and well-ordered documentation (including a series of statistical elaborations essential to the evaluation exercise), as well as an efficient and up-to-date data-bank on the beneficiary businesses, in the case of Egypt and the Palestinian Territories it was necessary to undertake a specific effort, at times lengthy and complex, to reconstruct various moments and activities of the two projects.

Finally, concerning the fourth difficulty, the team had to confront **two entirely different situations** concerning the evaluation exercise. If in the case of Tunisia and Egypt a sufficiently complete evaluation analysis was possible, in the case of the Palestinian Territories the project, in reality, is quite far from its conclusion, since most of the funds are still available and a restructuring/reformulation process is being undertaken on many aspects of the project itself.

The evaluation results, therefore, have a sufficiently coherent and conclusive character with regard to the projects in Tunisia and in Egypt, while for the Palestinian Territories it is more of an ongoing evaluation than a final assessment. For this last country, therefore, the ideas and evaluations expressed by the evaluation team have an absolutely provisional character and are oriented at furnishing recommendations for a new course rather than conclusions on the project.

## 3. THE TUNISIA PROJECT

### 3.1. Project description

#### 3.1.1. Institutional framework

The project “Line of credit in favour of Tunisian small and medium enterprises”, having a value of 36.5 MEUR, is the continuation of **well-established ties between Italy and Tunisia** in the social, cultural and above all economic fields. In terms of Italian cooperation efforts, the credit line of 36.5 MEUR for Tunisian SMEs, agreed upon during the 5th meeting of the Mixed Committee held in Tunis in June 2004, was preceded by a number of similar initiatives in previous years, in particular:

- a credit line of 50 million USD, approved in 1988 and operational in 1991;
- a credit line of 60 million USD, through two instalments of 30 million USD; the first instalment, approved in 1998, became operational in November 1996, while the second instalment approved in 2001 was operational in July 2002;
- a credit line of 56 billion lire, approved in November 1999 and operational in March 2001 (managed by UNIDO);
- a credit line of 60 billion lire, approved in February 2000 and operational in July 2001;
- a credit line of 36.5 MEUR, approved in 2004 and operational in August 2005.

Some previous evaluations have shown up not only the high pertinence of the credit lines mentioned but also their contribution towards the development of Tunisian SMEs in sectors of strategic relevance for the Tunisian economy and for Italian suppliers. The project in question is thus the **seventh initiative** of Italian cooperation in favour of Tunisian SMEs, and forms part of trading and cooperation ties between Italy and Tunisia of great importance for both nations.

The loan was approved by the Management Committee of the Foreign Affairs Ministry (MAE) with Decision no. 7 of 30/7/2007. The relative Agreement was signed on 25/10/2007 and came into effect on 1/4/2008. The interbank circular note of the Banque Centrale de Tunisie was issued on 16/6/2008, and on that date the credit line became **fully operational**.

It should be noted that following the rapid deployment of the credit line to which this evaluation refers, a new credit line **is being prepared**, basically very similar to the previous one, having a value of 73 million Euro.

#### 3.1.2. Objectives, methodological approach and planned activities

##### Objectives

The overall goal, as described in the programme document, is to “help achieve the objectives of the 9<sup>th</sup> Tunisian development plan in terms of GDP and job creation”. As regards specific goals, “the initiative shall help to promote private investments through the mobilisation of special external resources”.

The credit line is thus intended as a way of **supporting the development of Tunisian SMEs** through the granting of subsidised loans (compared with usual conditions in Tunisia’s credit market) for the purchase of capital goods and machinery from Italy.

Accordingly, as for previous credit lines made available by the Italian government, this is a way of facilitating Tunisian SME access to credit and making them **more competitive** in local, regional and international markets.

##### Expected results

As regards expected results, the project document envisaged the use of credit for **investments to modernise or create new enterprises** in the sectors of industry, agriculture (in particular the agrifood sector), fisheries and services. In greater detail, a total of 80 operations were anticipated, having an average value of about €450,000 and creating about 1,600 new jobs.

Project sums were put at the disposal of the Tunisian government in the form of credit, having a concessionality level of 40%, **managed by Tunisia's banking system**.

Credit line resources were intended for the **purchase of machinery of Italian origin**, while up to 35% of the credit amount could be used by Tunisian enterprises to acquire machinery and plants from local suppliers or other countries.

The loan was long term (up to 10 years) to overcome the **limited resources of the local banking system** (based chiefly on short-term commitments) in favour of Tunisian SMEs. The maximum repayment period was thus 10 years, while the maximum grace period was 3 years. The maximum amount of credit was 3 MEUR for Tunisian businesses and 5 MEUR for mixed Italo-Tunisian enterprises. The minimum amount was set at 100,000 euro.

The interest rate for sums not in full grant form was 0.25% per annum, while the repayment period was 12 years, including the grace period of 7 years.

Credit had to be **retroceded to resident Tunisian banks** (authorised intermediaries) according to the following conditions:

- Interest rate: I) loans in Euro: 0.25% per annum; II) loans in Tunisian *dinars*: 3.25% per annum, including commission for foreign exchange risk,
- Maximum repayment period: 10 years, including grace period,
- Maximum grace period: 3 years.

SMEs could obtain loans from authorised intermediaries under the **following terms**:

- Interest rate: I) loans in Euro: 3.25% per annum, including bank commissions; II) loans in Tunisian *dinars*: 6.25% per annum, including exchange premium and bank commissions,
- Maximum repayment period: 10 years, including grace period,
- Maximum grace period: 3 years,
- Each individual loan, including those divided into more than one contract, could not exceed the equivalent sum of 2.3 million Euro, and could not be less than 100,000 euro,
- Repayment terms had to be negotiated between the enterprise and its bank.

To be eligible, enterprises had to meet the following criteria:

- an enterprise operating under Tunisian law,
- a resident enterprise in accordance with art. 14 of the Tunisian investment code (thus excluding enterprises established in free-trade zones),
- an SME according to the EU's definition (fewer than 250 employees and revenue below 50 million euro, and meeting the criterion of independence),
- belonging to one of the following sectors: industry, agriculture, fisheries, services (transport, education, healthcare, consultancy – with the exception of tourism, commerce, finance).

**Preferential criteria** for the granting of credit were: a) projects promoted by Italo-Tunisian mixed companies, b) projects to create new jobs or save jobs, improve environmental impact and innovate production processes.

## Planned activities

Originally planned activities, all based on the granting of credit to Tunisian SMEs, were as follows:

- the signature and coming into effect of the Intergovernmental Agreement and Financial Agreement between Banque Centrale de Tunisie and the Agent Bank of the Italian Government;
- the appointment of an expert on the part of MAE-DGCS to assist the Director of the Cooperation Office of Tunis with checking the compliance of operations with the Agreement before such operations were booked to the credit line;

- activities to promote the credit line on the part of the Italian Embassy/UTL of Tunis in relations with Tunisian entrepreneurs potentially interested in using the credit line, in particular through information days;
- a final evaluation of the programme.

### 3.1.3. Project budget

The overall budget for the project amounted to 36,860,000 Euro, of which 24,040,000 Euro for foreign currency expenses and 12,820,000 Euro for local currency expenses. The table below gives a breakdown of costs for spending items, as determined by the programme document.

Table 1: The project budget Tunisia

ESTIMATED COST IN EURO			
COMPONENTS	Expenses in local currency	Expenses in Euro	TOTAL
<b>A. CREDIT</b>	<b>12.725.000</b>	<b>23.725.000</b>	<b>36.500.000</b>
A1 SME Credit line	12.725.000	23.725.000	36.500.000
<b>B. GRANT</b>	<b>65.000</b>	<b>315.000</b>	<b>380.000</b>
B.1 Technical assistance (DGCS expert)		300.000	300.000
B.2 Promotion	30.000		30.000
B.3 Final evaluation	15.000	15.000	30.000
B.4 Audit	20.000		20.000
<b>TOTAL</b>	<b>12.840.000</b>	<b>24.040.000</b>	<b>36.880.000</b>

The project was cofinanced by the Italian and Tunisian Governments, whose relative contributions are given in the table below.

Table 2: Breakdown of the project budget

FUNDING BREAKDOWN BETWEEN ITALY AND TUNISIA			
COMPONENTS	Tunisian Government	Italian Government	TOTAL
<b>A. CREDIT</b>		<b>36.500.000</b>	<b>36.500.000</b>
A1 SME Credit line		36.500.000	36.500.000
<b>B. GRANT</b>	<b>35.000</b>	<b>345.000</b>	<b>380.000</b>
B.1 Technical assistance (DGCS expert)		300.000	300.000
B.2 Promotion		30.000	30.000
B.3 Final evaluation	15.000	15.000	30.000
B.4 Audit	20.000		20.000
<b>TOTAL</b>	<b>35.000</b>	<b>36.845.000</b>	<b>36.880.000</b>

### 3.1.4. Project implementation mechanisms

According to the programme document the Italian Government was to have been involved through two loan agencies: the Ministry of Economics for loaned sums and the Ministry of Foreign Affairs – DGCS for the grant component. MAE-DGCS, responsible for the project's objectives, was represented by the Cooperation Office of the Italian Embassy in Tunis.

The implementing agencies for the credit line were the Tunisian commercial banks, DGCS, through its Cooperation Office in Tunis (to check the compliance of applications with eligibility and granting parameters) and the Banque Centrale de Tunisie, designated to authorise payments. DGCS was also the implementing agency for the grant component of the Italian loan, and in particular for the recruitment and action of the expert managing and promoting the credit line, and for the recruitment of the post-evaluation expert.

The project was to have been supervised by a Liaison and Control Committee for general project guidance. This Committee was set up and is chaired by the Tunisian Ministry for international Cooperation. The Committee was made up of representatives of the Tunisian Ministry for international Cooperation, Tunisian Foreign Affairs Ministry, Tunisian Ministry of Finance and SMEs, Banque Centrale de Tunisie and DGCS – Cooperation Office. The tasks of the Committee, which was to meet every 6 months at the Tunisian Cooperation Ministry, were to

ensure the correct application of procedures set forth in the Agreement and the Financial Agreement and to approve interim reports on activities.

The credit line was thus managed by the Embassy – Tunis cooperation office. The prepared instrument was broken down into the following phases:

- the Tunisian promoter prepares the project and submits it to its bank for a loan application;
- the promoter bank examines the application in terms of collateral securing the loan (the Tunisian bank is the sole party responsible for loan repayments);
- once the bank has approved the loan, it transmits the application to the Italian Embassy for its recording on the Italian line;
- the cooperation office of the Embassy examines the documentation received for formal and substantial compliance and gives an opinion;
- if this opinion is positive the Embassy gives its consent for the recording of credit on the Italian line and communicates this fact to DGCS, the Italian bank managing the revolving fund on behalf of the Italian Government (in this case Medio Credito Centrale), the Tunisian commercial bank, Banque Centrale de Tunisie, Tunisian Ministry of Foreign Affairs and the promoter;
- the promoter bank opens the letter of credit at the Banque Centrale de Tunisie;
- the Banque Centrale de Tunisie instructs its agent bank in Italy (Artigiancassa) to pay for the supply;
- the agent bank of the Central Bank pays the Italian supplier.

The following documentation was required from enterprises:

- technical and economic feasibility study;
- the financial statements for the past 3 years and, in the case of new projects, relative budgets;
- the grounded opinion of the bank on the initiative and on the promoter;
- in those cases required by Tunisian law, the certificate of the Agence Nationale pour la Promotion de l'Environnement (ANPE), or if this is not available an environmental impact assessment and the letter of transmission to ANPE;
- pro-forma invoices or contracts of the Italian supplier;
- self-certification of the promoter regarding the presence/absence of Italian shareholders in its company and the pledge to communicate the possible future entry of Italian entities in the company.

**No type of monitoring was envisaged**, nor any other type of assistance to the applicant enterprise once approval of the loan had been given.

### 3.1.5. Activities actually performed through the project

The project completed **all planned activities** and in some cases went well beyond expectations.

The credit line was **completely used**, with the financing of 62 enterprises (compared with the estimate of 80 enterprise in the programme document) for a total sum of €36,422,622.11 out of the available €36,500,000. The amount left over was thus €77,377.89, which is not usable given the minimum sum of €100,000 being one of the conditions for the granting of the loan. Only one of the 62 enterprises applied for a loan in the local currency, for a sum of 521,598,180 Tunisian *dinars*, having a value of €274,901.54.

The table below gives the figures for amounts and sectors relating to the 62 enterprises.

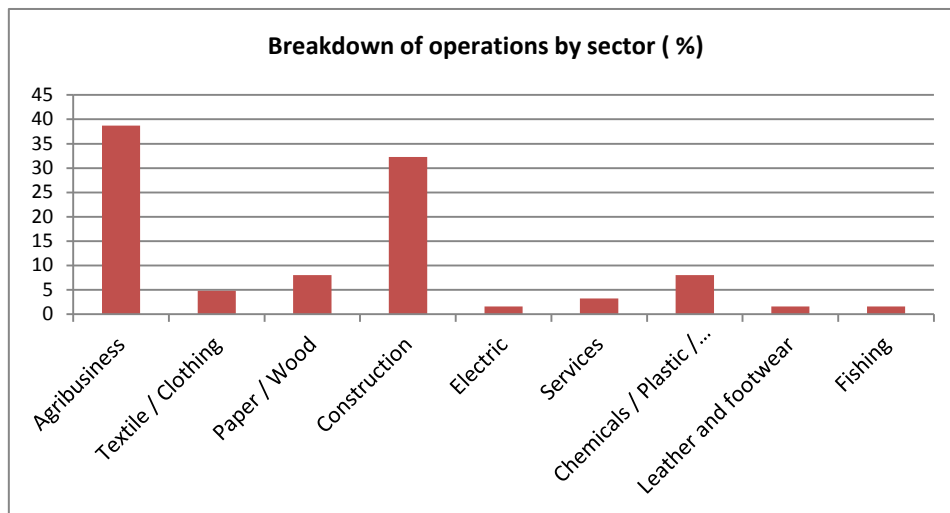
Table 3: Breakdown of financing operations by business sector

Breakdown of operations financed by business sector				
Sector	N. operations	%	Amount	%
Agribusiness	24	38,71	12.222.549,80	33,56
Textile/Clothing	3	4,84	498.000,00	1,37
Paper/Wood	5	8,06	1.702.300,00	4,67
Construction	20	32,26	14.798.559,94	40,63

Breakdown of operations financed by business sector				
Electric	1	1,61	2.100.000,00	5,77
Services	2	3,23	911.000,00	2,50
Chemicals/Plastic/Pharmaceutical	5	8,06	3.226.102,37	8,86
Leather and footwear	1	1,61	134.500,00	0,37
Fishing	1	1,61	829.610,00	2,28
<b>Total</b>	<b>62</b>	<b>100</b>	<b>36.422.622,11</b>	<b>100</b>

As can be seen from the previous table, the agrifood sector (24 operations) and the building sector (20 operations) made up 70.2% of all loan operations. Figures are shown in the graph below.

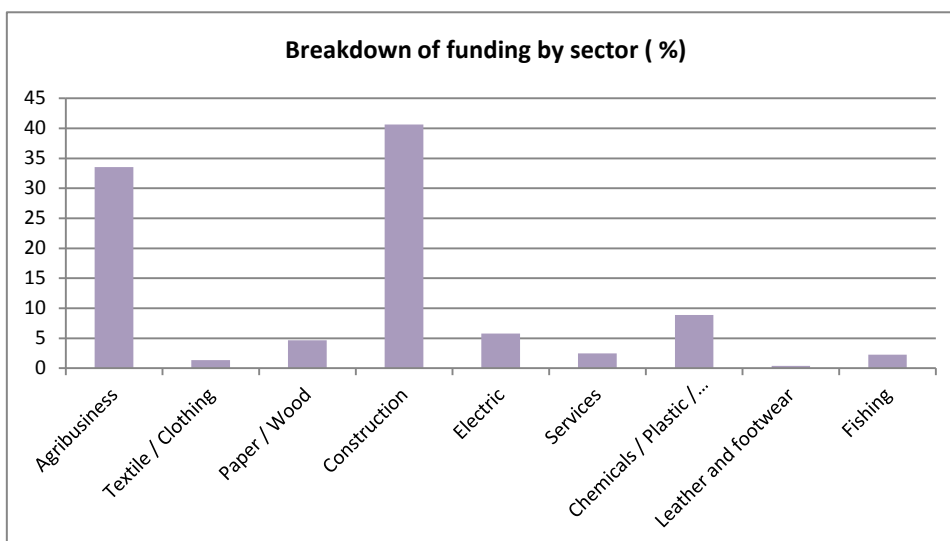
Figure 1: Breakdown of operations by activity sector



Source: processed from UTL Tunis data

Also with regard to the total amounts of operations, the two sectors agrifood and construction account for most of the available resources (71.19%). In this case however the building sector moves above agrifood, as the graph below shows.

Figure 2: Breakdown of funding by sector

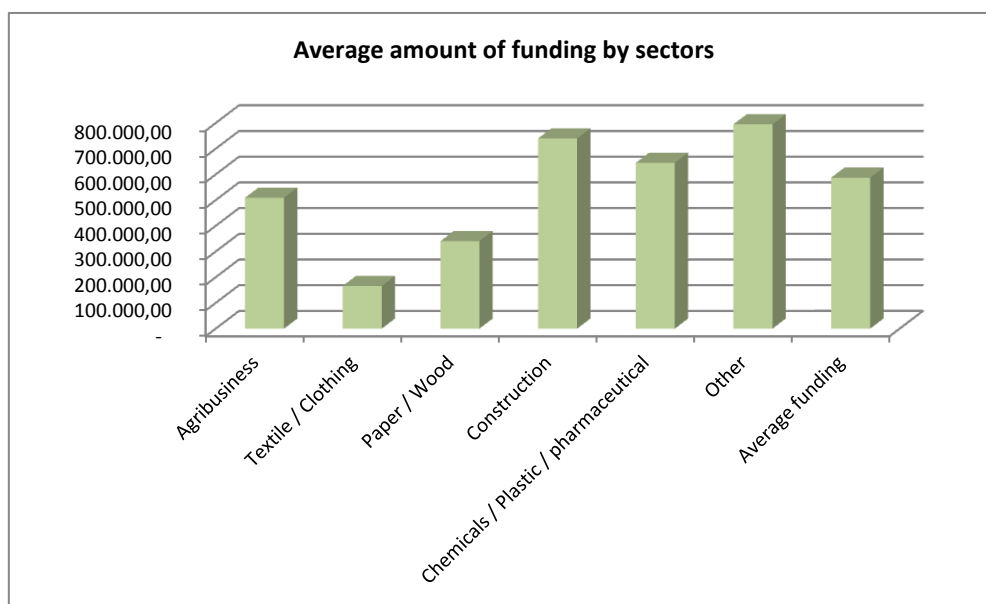


Source: processed from UTL Tunis data

In practice the average loan granted is quite different from sector to sector, as the graph below shows. It is noted that the average loan for the 62 operations is €587,461.647.



Figure 3: Average amount of funding by sector



Source: processed from UTL Tunis data

With regard to enterprise types, a large percentage of loans were intended to fund the creation of enterprises (29 loans, 46.8%), compared with loans intended to consolidate existing enterprises (32 loans, 51.6%). One of the 62 operations (1.6%) was dedicated to an enterprise restructuring initiative.

With regard to the size of loan in relation to the above three categories of enterprise, the table below gives the relative composite data.

Table 4: Operation for type of funding

Loans by type of company		
	Loan Amount	%
Start up	20.541.254,80	56,4
Consolidation	15.578.167,31	42,8
Restructuring	303.200,00	0,8
<b>TOTAL</b>	<b>36.422.622,11</b>	<b>100</b>

As can be observed, the amount set aside for the financing of new enterprises was considerably more than that dedicated to the consolidation of enterprises, despite the larger number of operations referring to this type (29 loans for enterprise creation vis-à-vis 32 for consolidation).

These figures are of interest for the purposes of creating new jobs, since the 29 enterprises receiving the loans would not have been able (or in any case would have had greater difficulty) to be operational quickly in a context (Tunisian) marked by very high unemployment rates, one of the reasons behind the popular uprising of the so-called 'Arab spring' in Tunisia.

New jobs created as a result of the 62 loan operations were estimated in the feasibility studies of each enterprise at 1,614 units, made up of 205 executives and 1,409 workers. Within this framework the incidence of job creation in newly created businesses is much higher than that relating to consolidation operations, as shown in the table below.

Table 5: Creation of new employment by type of company

New jobs for type of operation			
	Middle managers	Workers	Total
Start up	146	839	985
Consolidation	54	570	624
Restructuring	5	--	5
<b>TOTAL</b>	<b>205</b>	<b>1.409</b>	<b>1.614</b>

With regard to sectors of activity in which enterprise creation through use of the Italian credit line is greatest, the table below gives composite data.

Table 6: Beneficiary SMEs for type of funding and business sector

Beneficiary SMEs for type of funding and business sector				
Sectors	Start up	Consolidation	Restructuring	Total
Transport		1		1
Construction	8	11	1	20
Agribusiness	15	9		24
Services		1		1
Textiles		3		3
Paper	2	2		4
Pharmaceutical	1	2		3
Plastic		1		1
Leather/Footwear		1		1
Fishing		1		1
Wood	1			1
Chemical	1			1
Electric	1			1
<b>TOTAL</b>	<b>29</b>	<b>32</b>	<b>1</b>	<b>62</b>

Source: processed from UTL Tunis data

With regard to territorial distribution, the activities performed are of considerable interest since, unlike the actions of other cooperation agencies that tend to favour the urban zone of Tunis, where there is a high concentration of economic activities but also numerous opportunities for SMEs, not least access to credit, with the Italian credit line it is possible to note that practically **the whole country** was involved. Indeed, 21 out of 24 governorates were involved.

The table below shows the 62 beneficiary SMEs by governorate and by loan type.

Table 7: SMEs for governorates and type of loan

SMEs for governorates and type of loan				
Governorate	Start up	Consolidation	Restructuring	Total
Ben Arous	4	4		8
Siliana	2	1		3
Béja	3		1	4
Sfax	1	7		8
Tozeur	1			1
Madhia	3	1		4
Nabeul	4	4		8
Manouba	1	2		3
Sousse	2	3		5
Kasserine	1			1
Monastir		1		1
Sidi Bouzid	1			1
Kairouane		1		1
Mégrine		1		1
Zaghouane	3	1		4
Ariana		3		3
Kebili	1			1
Le Kef		1		1
Gabès	1			1
Bizerte	1	1		2
Tunis		1		1
<b>TOTAL</b>	<b>29</b>	<b>32</b>	<b>1</b>	<b>62</b>

Source: processed from UTL Tunis data

If we consider the urban zone of Tunis – i.e. the governorate of Ben Arous, Ariana, La Manouba, Mégrine and the governorate of Tunis – it appears clear that this area represents a minority share of all operations, as the table below shows.

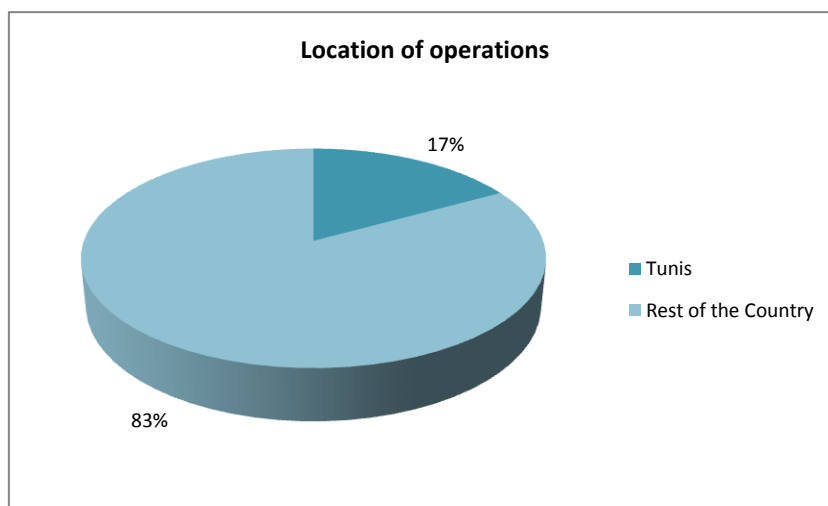
Table 8: Beneficiary SMEs by geographical area and type of loan

Beneficiary SMEs by geographical area and type of loan				
Governorate	Start up	Consolidation	. Restructuring	Total
Tunis Urban area	5	11		16
Rest of the country	24	21	1	46
<b>TOTAL</b>	<b>29</b>	<b>32</b>	<b>1</b>	<b>62</b>

Source: processed from UTL Tunis data

The urban area of Tunis – “le Grand Tunis” – thus makes up just 25.8% of all operations, while the rest of the country, as the graph below shows, received 74.2% of all loans.

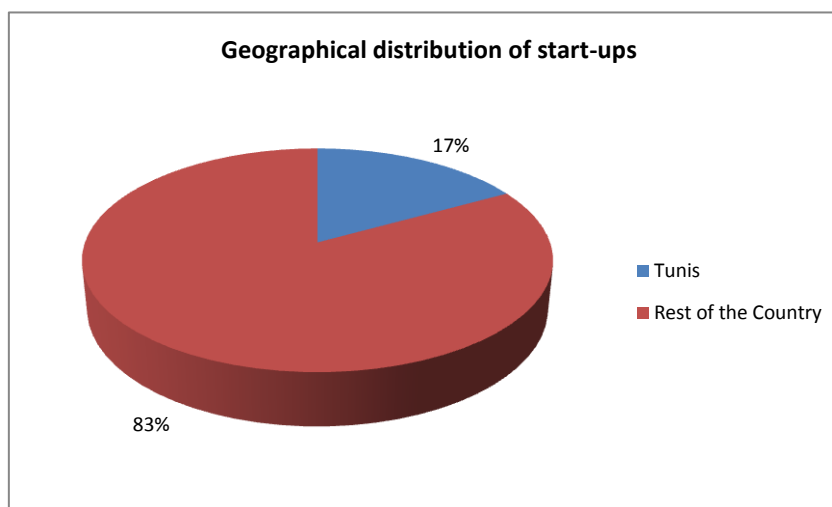
Figure 4: Location of operations



Source: processed from UTL Tunis data

It is also interesting to note that most enterprise creation operations (82.8%) refer to geographic areas other than the urban area of Tunis, as shown in the graph below.

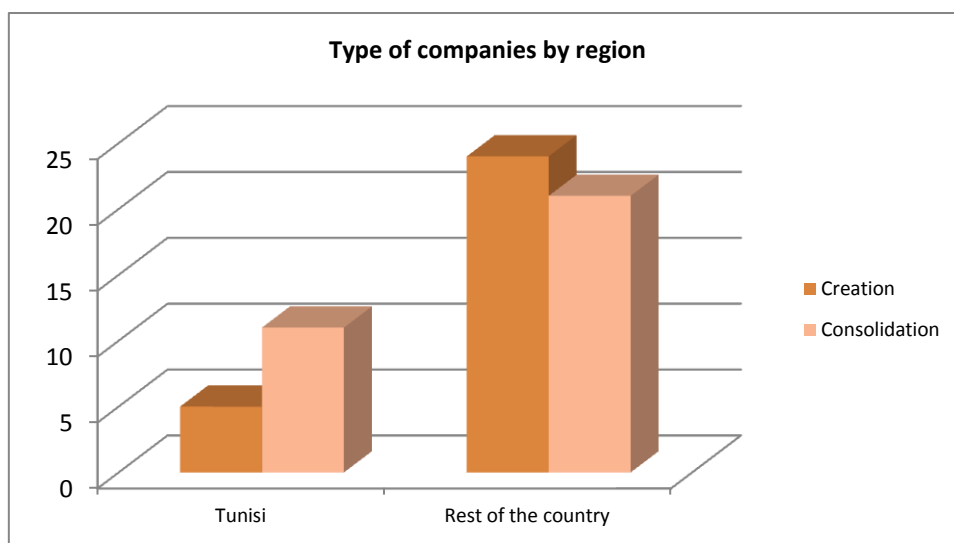
Figure 5: Geographical distribution of start-ups



Source: processed from UTL Tunis data

If we consider the two geographic areas, the area of Tunis and the rest of the country, it can be seen that while for the Tunis area enterprise creation represents a minority of operations, for the rest of the country the trend is reversed in respect of consolidation operations.

Figure 6: Type of companies by region



Source: processed from UTL Tunis data

To complete the picture of activities performed it is necessary to give the data regarding promotional activities aimed at small and medium enterprises to publicise the Italian credit line and the ways of obtaining loans. A total of 6 information days were held in as many localities of the country, involving a number of actors potentially interested in using the Italian credit line. The table below gives the composite data.

Table 9: Participants in project presentation events

Participants in the project presentation events						
Cities	Banks	Associations	SME Support organisations	Public Authorities	Entrepreneurs	Total
Tunis	25	14	17	15	3	74
Sousse	21	15	10	4	24	74
Tabarka	12	16	9	6	20	63
Gafsa	10	16	10	9	15	60
Biserte	13	20	12	6	30	81
Gabès	4	19	16	6	28	73
<b>Total</b>	<b>85</b>	<b>100</b>	<b>74</b>	<b>46</b>	<b>120</b>	<b>425</b>

The information day in Tunis was organised by the Cooperation Office, and those in the other 5 localities by the local Chambers of Commerce and Industry which, having jurisdiction over more than one governorate, convened actors potentially interested in the Italian credit line in the relevant zone. According to activity reports 22 governorates of the 24 in existence were involved.

In addition to these presentation days, 4,000 copies of a pamphlet were produced to publicise the credit line, and 19 ads were published in 6 publications, of which 3 newspapers, 2 bimonthlies and one monthly.

To perform these promotional activities a sum of €15,000 was set aside, of which 5,968.59 Tunisian *Dinars* was not used. This money was transferred to the Treasury.

Interviews conducted by the team showed that numerous other promotional activities were performed, in Italy too involving Italian enterprises potentially interested in trade relations with Tunisia. As will be seen by the in-depth analysis of a sample of enterprises, these contacts, often informal, represented an **excellent channel of information** to Tunisian enterprises regarding the existence of the credit line.

### 3.1.6. The actors actually involved

The project involved a large number of actors directly and indirectly interested in SMEs gaining access to lending. This capacity, allied with an **excellent knowledge of the context and its key actors**, are the main reasons behind the success of the project.

In this sense, promotional activities, **performed in good time and at very modest costs**, were key to involving many actors. But even more crucial, for the success of the project, was the support given by existing networks, such as chambers of commerce, other representative organisations and professional associations, rather than having to rely solely on individuals. This enabled the project to have a **broad presence** all over the country, and not just in the capital city, which as already mentioned had been a characteristic of many development cooperation projects aimed at the private sector and more particularly at Tunisian SMEs.

It is interesting to note that promotional activities went beyond Tunisia to involve, even though this was not envisaged in the programme document, the network of Italian entrepreneurs, both those that traditionally had trade ties with Tunisia and those who could be actively involved due to special interest or the characteristics of their products. Thanks to the use of personal, institutional and trading relations, this network of Italian entrepreneurs was able to make direct contact with Tunisian entrepreneurs, and to form a sort of **virtuous circle** thanks to the mutual interest of entrepreneurs of both nationalities in developing ties and entering into trade agreements that centred mainly but not only on the supply of machinery and equipment.

A good indicator of the **breadth of the network of Tunisian actors** is the number of Tunisian banks actively involved in the project. The table below gives basic information on the involvement of Tunisian credit institutes.

Table 10: Banks involved in the project for loans and amounts

Banks involved in the project				
	Banks	Loans	Total in Euro	Total in Tunisian Dinars
1	Amen Bank	10	8.848.811,20	
2	Arab Tunisian Bank (ATB)	8	3.576.608,00	
3	Banque Financement PME (FPME)	10	3.197.645,37	
4	Banque Tuniso-Koweitienne (BTK)	1	800.000,00	
5	Tunisian Qatari Bank (TQB)	1	178.000,00	
6	Banque Tuniso-Libyenne (BTL)	1	937.100,00	
7	Banque de l'Habitat (BH)	5	1.460.050,00	
8	Banque Internationale Arabe de Tunisie (BIAT)	6	2.251.512,00	521.598,180
9	Banque Nationale Agricole (BNA)	10	3.882.974,00	
10	Attijari Bank	4	1.266.417,00	
11	Banque de Tunisie (BT)	1	384.000,00	
12	Banque Franco-Tunisienne (BFT)	1	547.000,00	
13	Société Tunisienne de Banque	9	4.475.303,00	
14	UBCI	4	3.008.000,00	
15	Union Internationale de Banques (UIB)	3	1.115.300,00	
16	Stusid Bank	1	219.000,00	
<b>TOTAL</b>		<b>75</b>	<b>36.147.720,57</b>	<b>521.598,180</b>
<b>TOTAL IN EURO</b>			<b>36.422.622,11</b>	

Source: processed from UTL Tunis data

As can be seen by the table, there were 16 Tunisian banks involved, even though the majority of operations were coordinated by 5 banks in particular. It is in any case interesting to note the great variety of credit institutes, each of which having their own type of **clientele** (agricultural holdings, building firms, SMEs, etc.).

In addition to the fundamental role of banks in promoting the Italian credit line, the mission was able to see that the Banque Centrale de Tunisie promoted numerous meetings and regularly sent out circulars and newsletters to make Tunisian banks aware of the need to **publicise the opportunities** afforded by the Italian projects to their clients.

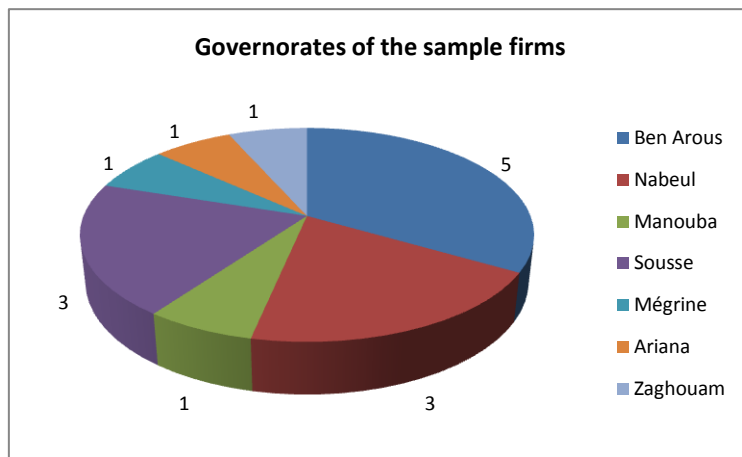
### 3.2. Evaluation results

As already mentioned, for the analysis of the Tunisian project the team had at its disposal not only a good deal of information classified by the Cooperation Office in Tunis but also a sufficient number of enterprises to be able to carry out a quantitative in-depth analysis using a **sampling method capable of providing reliable information**. Analysis of the evaluation also referred to the results of different meetings held in the field, to abundant and exhaustive documentation and to the treatment of macro-economic data.

The sample to which the in-depth analysis refers consisted of **15 beneficiary enterprises** of the 62 firms granted loans as part of the credit line, **stratified according to three criteria**: the type of financing (enterprise creation or consolidation), geographic location and sector of activity.

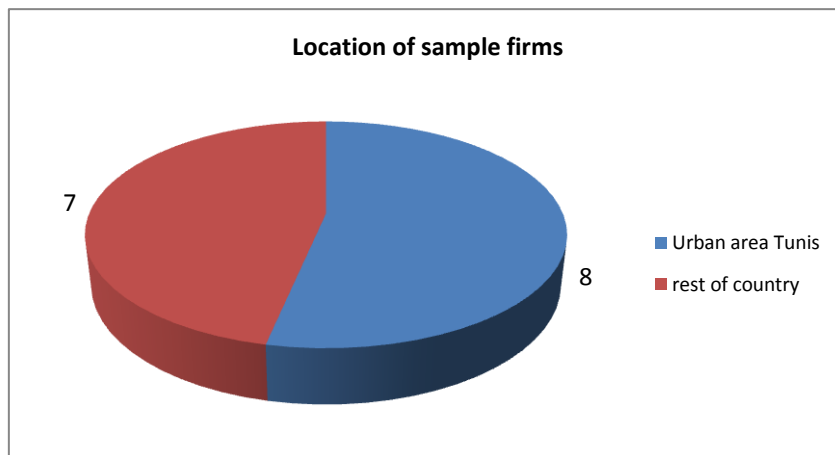
With regard to the **type of financing**, 9 new enterprises and 6 consolidation operations were taken into consideration. As regards the second criterion, **geographic location**, enterprises based in 7 governorates were included, as shown in the chart below.

Figure 7: Governorates of the sample firms



Some of these 7 governorates belong to the urban area of Tunis. If we consider the variables “urban area of Tunis” and “rest of the country”, 8 enterprises belong to the Tunis area, while 7 are based in governorates in the rest of the country, as shown in the chart below.

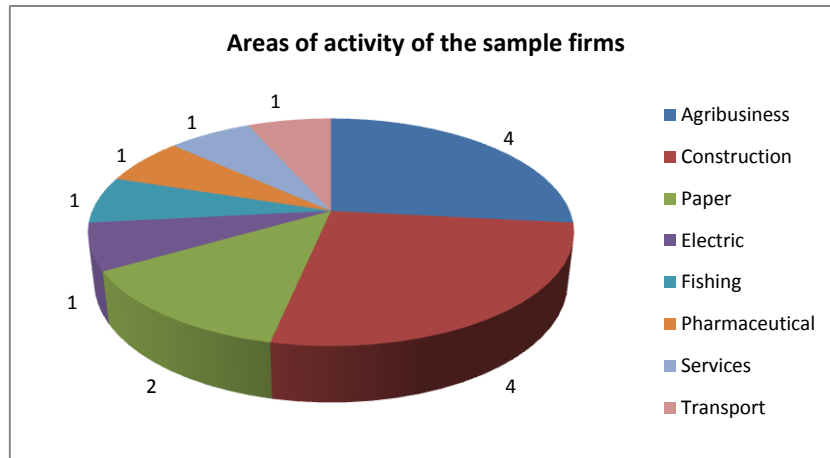
Figure 8: Location of sample firms



It should be stressed that the sample for the Tunis area is slightly **over-represented** vis-à-vis the universe of the 62 beneficiaries of the credit line because of the extreme sectoral specialisation of enterprises based in governorates outside the urban area of the capital. The team chose to give priority to the **representativeness** of

enterprises' sectors of activity rather than their geographic location. With regard to the third criterion, the distribution by **sector of activity** of the sample is given in the chart below.

Figure 9: Areas of activity of the sample firms



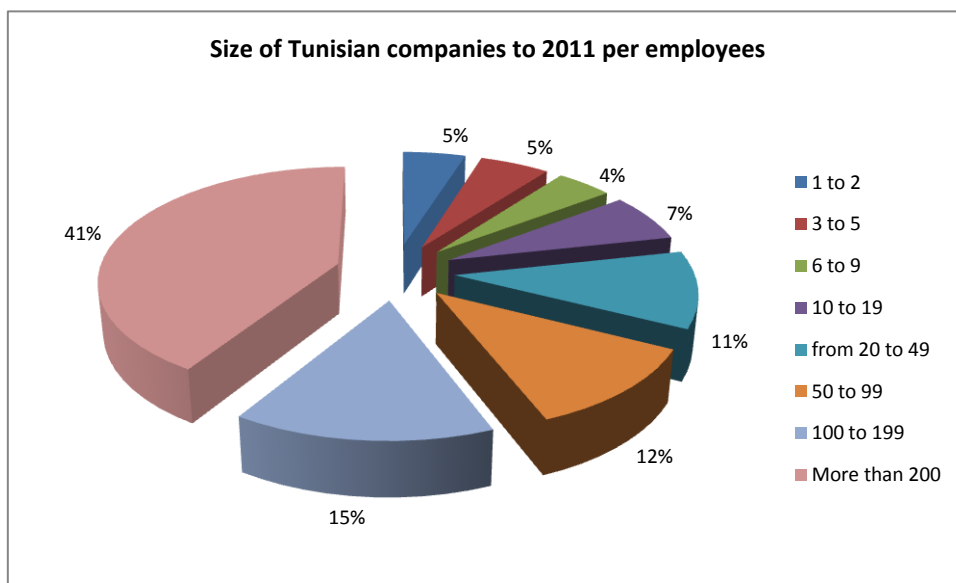
### 3.2.1. Relevance/Pertinence

In order to assess the **pertinence of the project in relation to the Tunisian context**, five concrete and quantifiable criteria were taken into consideration, namely: the weight of SMEs in the Tunisian economy and sectors of activity; the macro-economic context; previous experiences in the sphere of aid credit in favour of Tunisian small and medium enterprises; trade flows between Italy and Tunisia; job creation.

#### The weight of SMEs in the Tunisian economy and sectors of activity

The first criterion is that of the **weight of SMEs in the Tunisian economy**. Even though the data supplied by the Tunisian National Statistics Institute do not use the EU's definition of SME, it is interesting to note that 59% of enterprises employed fewer than 200 workers, as the chart below shows.

Figure 10: Size of Tunisian companies to 2011



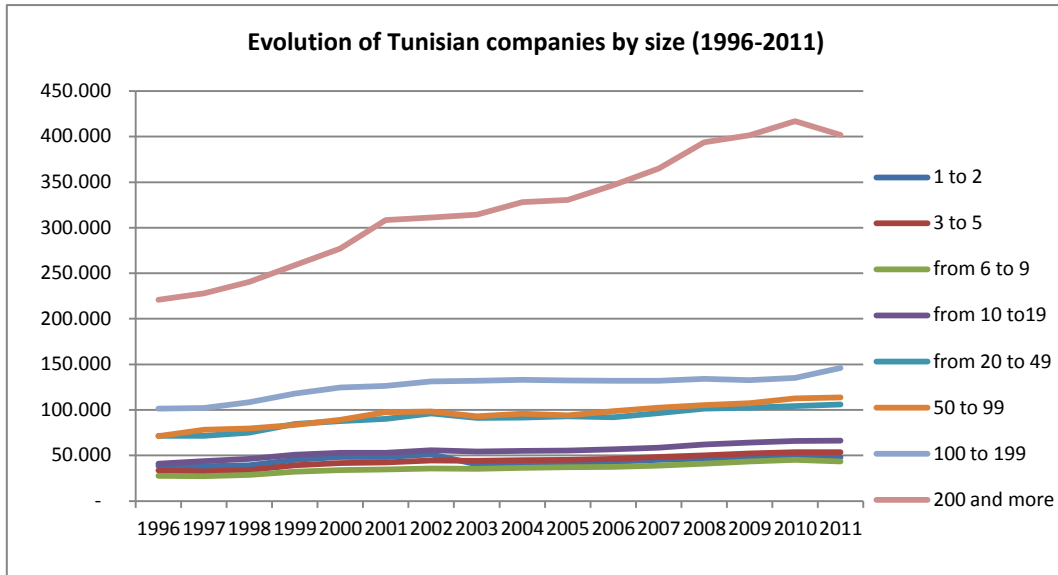
Source: processed from UTL Tunis data

It is thus possible to state that SMEs represent the **backbone of Tunisia's economic system**, even though there is a clear growth problem for smaller enterprises, as the graph below shows, while larger firms, despite suffering a

significant decline at the time of the country's political and institutional revolution, beginning at the end of 2010, show an upward trend.

One of the **factors limiting** the growth of smaller enterprises is probably that of gaining **access to credit**, for which reason Tunisia's banking system makes considerable use of **collateral**. A second problem may be related to the family dimension of enterprises: while this fact favours flexibility, it also raises the risk of **closing up to investments and capital coming from outside the family**.

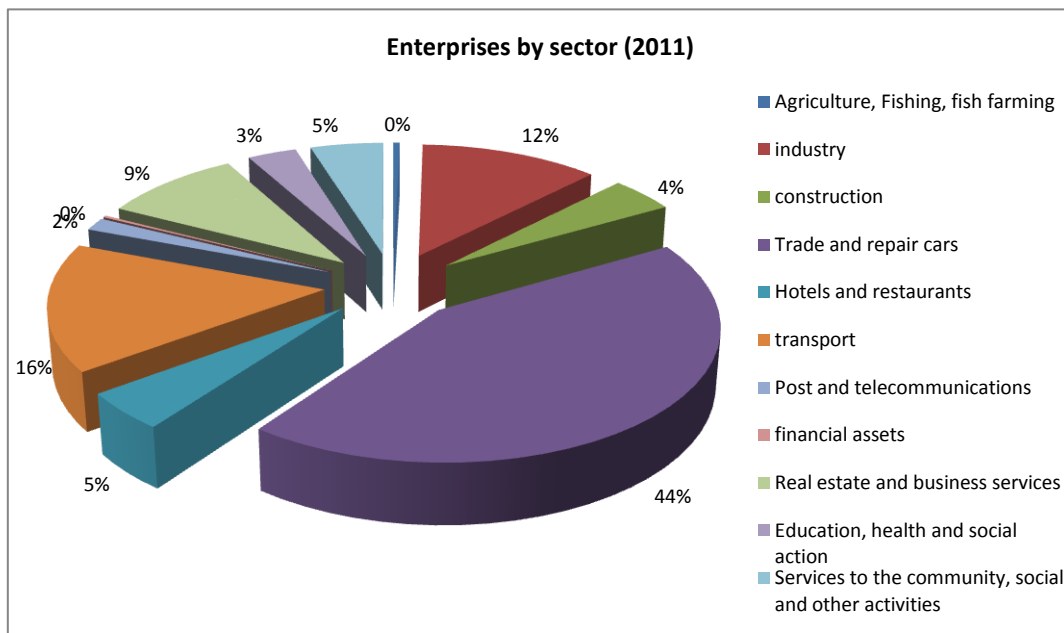
Figure 11: Evolution of Tunisian companies by size (1996-2011)



Source: processed from UTL Tunis data

Looking at single **sectors**, trade and commerce comes out top with 44% of all enterprises, followed by transport (16%) and industry (12%), as shown in the chart below.

Figure 12: Enterprises by sector (year 2011)

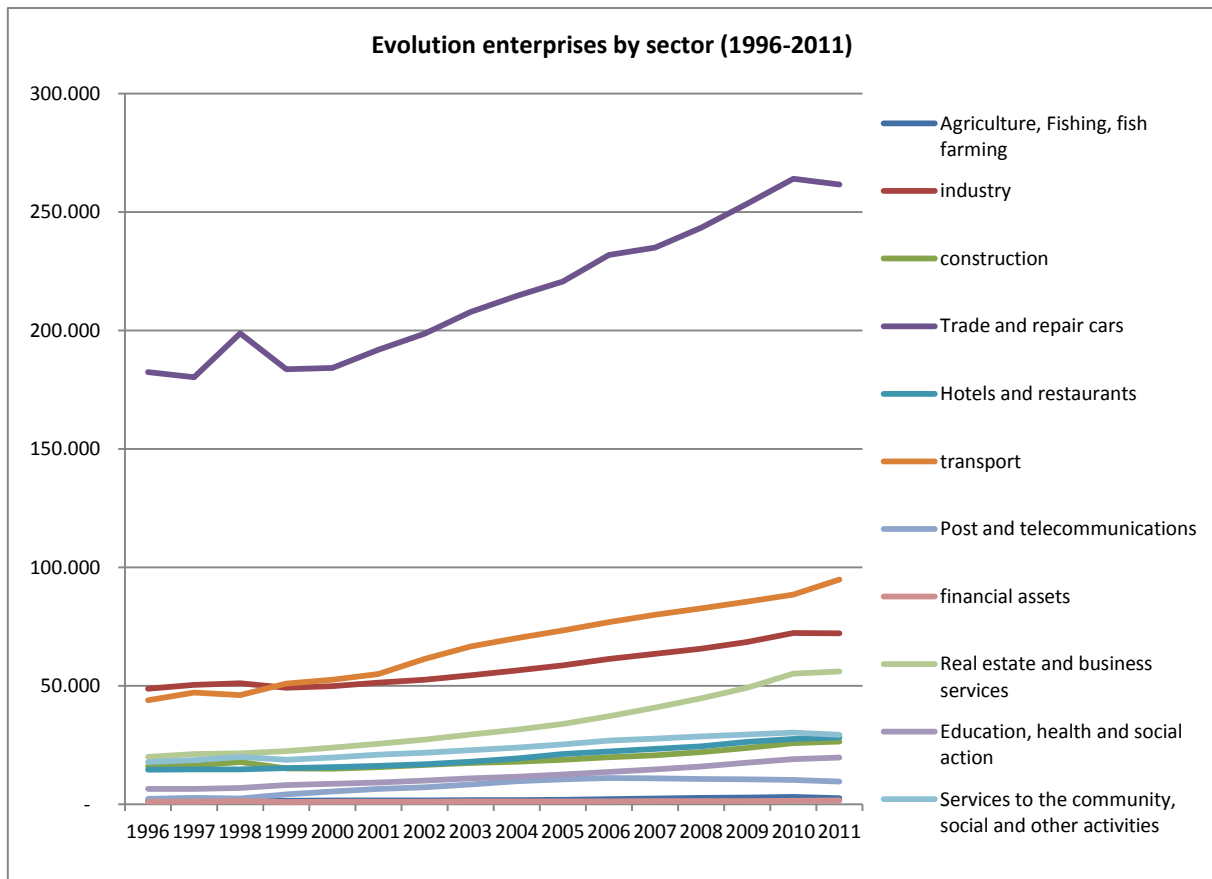


Source: processed from UTL Tunis data



Looking at the time series from 1996 to 2011, the sectors of commerce, transport, industry and real estate appear to be the **most dynamic**, as the chart below shows.

Figure 13: Evolution of Tunisian enterprises by sector



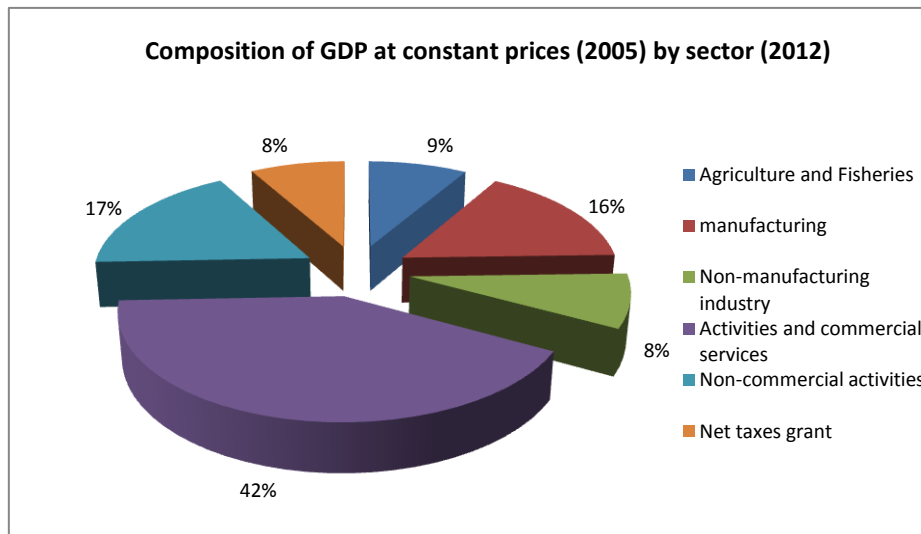
Source: processed from UTL Tunis data

In terms of pertinence, therefore, the choice of facilitating Tunisian SMEs' access to credit appears to be a choice aimed at favouring the more general **growth of the country**, in view of the crucial role played by small and medium enterprises in the Tunisian economy.

### The macro-economic context

Tunisia's **macro-economic context** shows the formation of GDP dominated by commercial activities and services (42% of total) with a high incidence of agriculture and fisheries (17%) and manufacturing (16%).

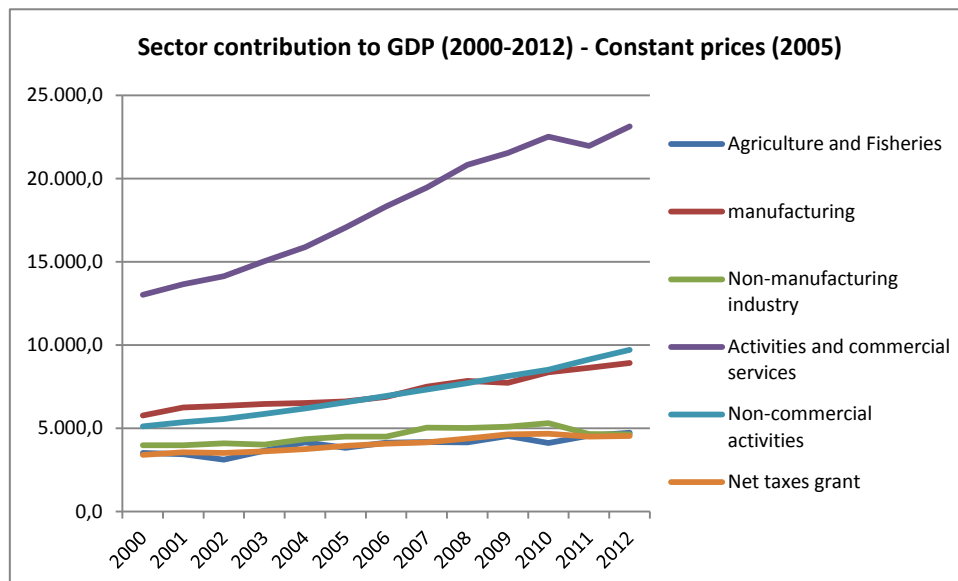
Figure 14: Composition of GDP at constant prices by sector



Source: processed from "Institut National de la Statistique" data

The latter two sectors are those in which the Italian credit line to which this evaluation refers has been used most, and they are also the sectors, as the graph below shows, that have enjoyed **constant growth trends** ever since the start of the new millennium.

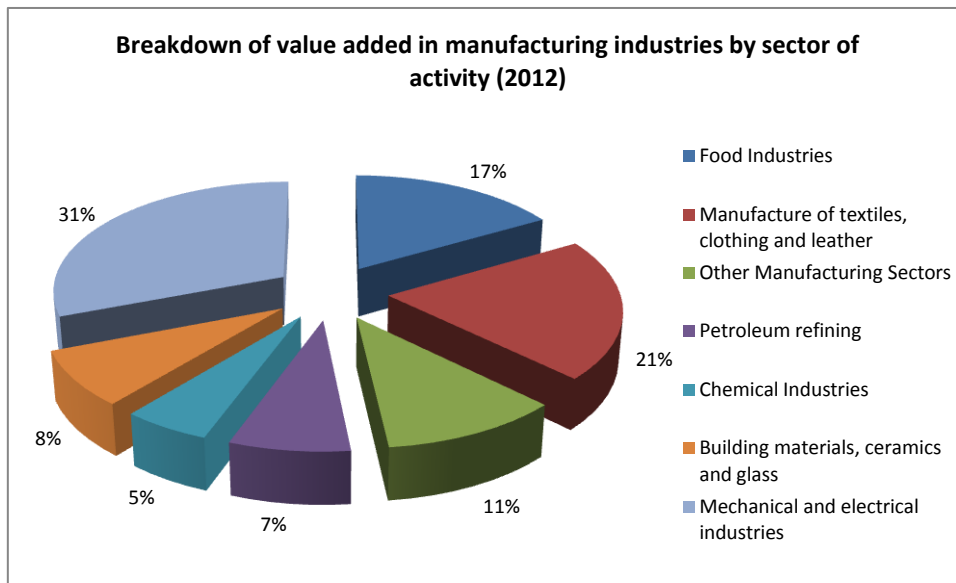
Figure 15: Sector contribution to GDP at constant prices



Source: processed from "Institut National de la Statistique" data

With regard to **manufacturing**, a sector in which the project is very much involved, the graph below shows value added for each sector of activity for the year 2012.

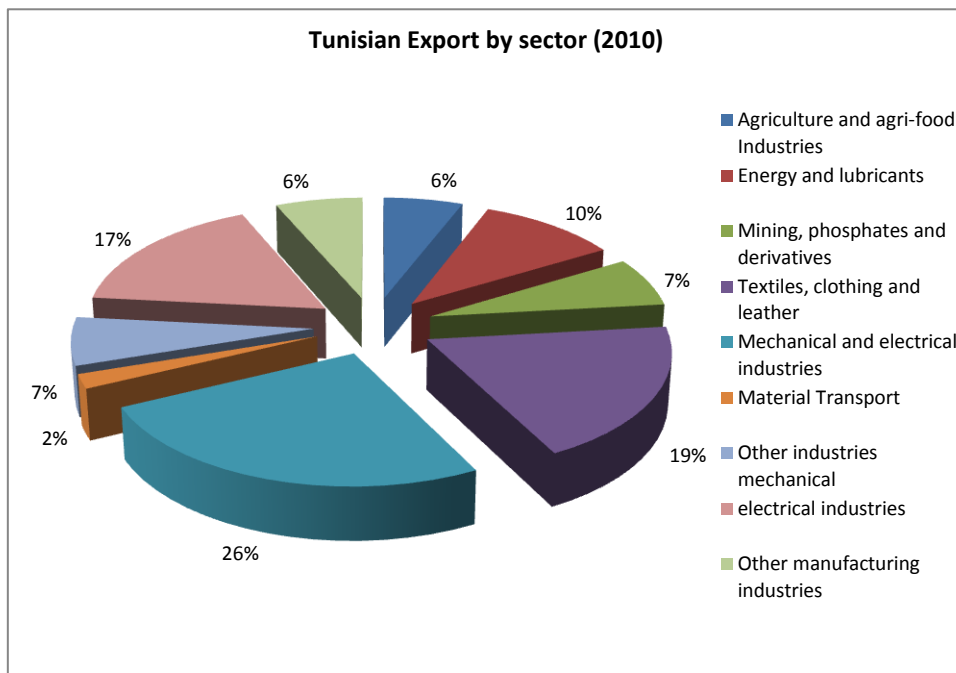
Figure 16: Breakdown of value added in manufacturing industries by sector of activity



Source: processed from "Institut National de la Statistique" data

Remaining in the macro-economic sphere, the most important sectors for **Tunisian exports** in 2010 are engineering, electrical, textiles and agrifood, as the graph below shows.

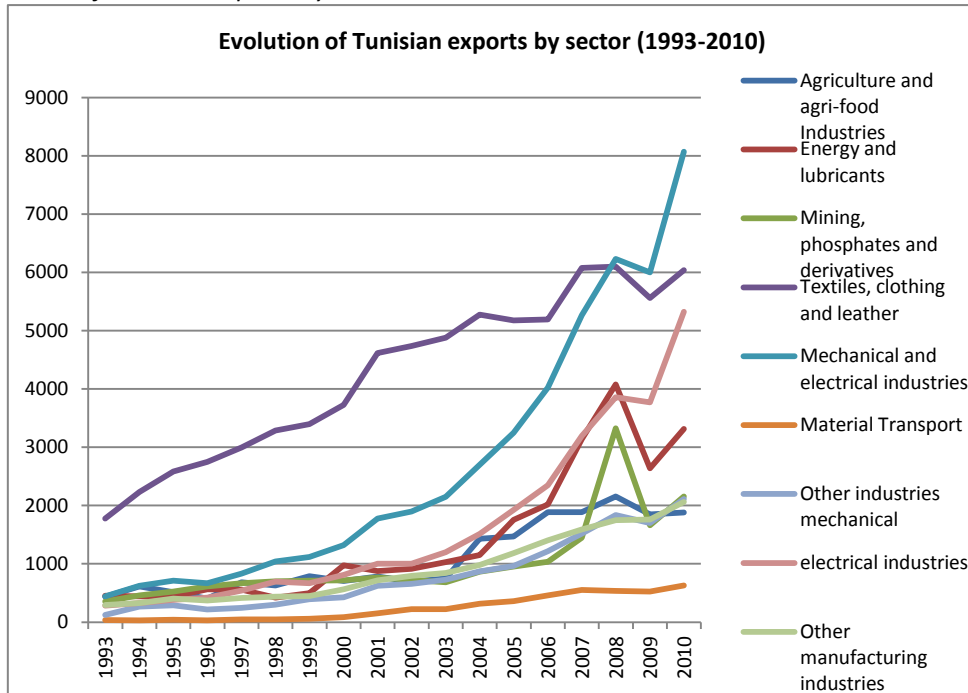
Figure 17: Tunisian Export by sector (2010)



Source: processed from "Institut National de la Statistique" data

The next graph shows **Tunisian export trends by sector** for the years 1993 to 2010.

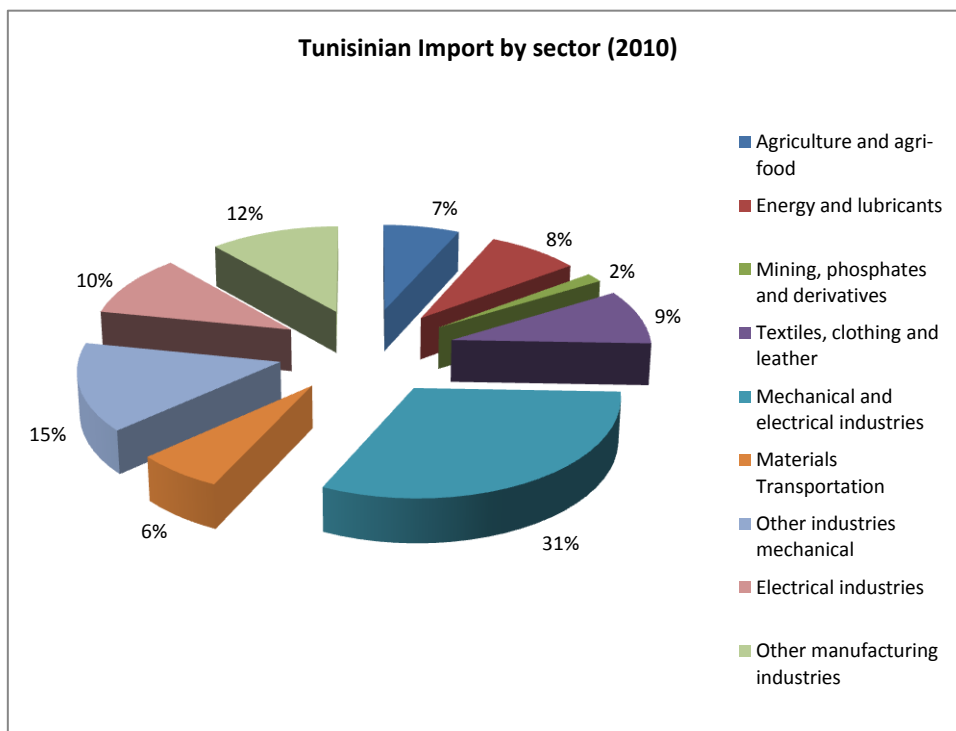
Figure 18: Evolution of Tunisian exports by sector



Source: processed from "Institut National de la Statistique" data

The project has therefore been working in the **same sectors** that have contributed over the past twenty years, and that are continuing to contribute to Tunisian exports. Looking now at **imports**, the biggest sector is undoubtedly engineering, which in 2010 accounted for 46% of all exports, as the graph below shows.

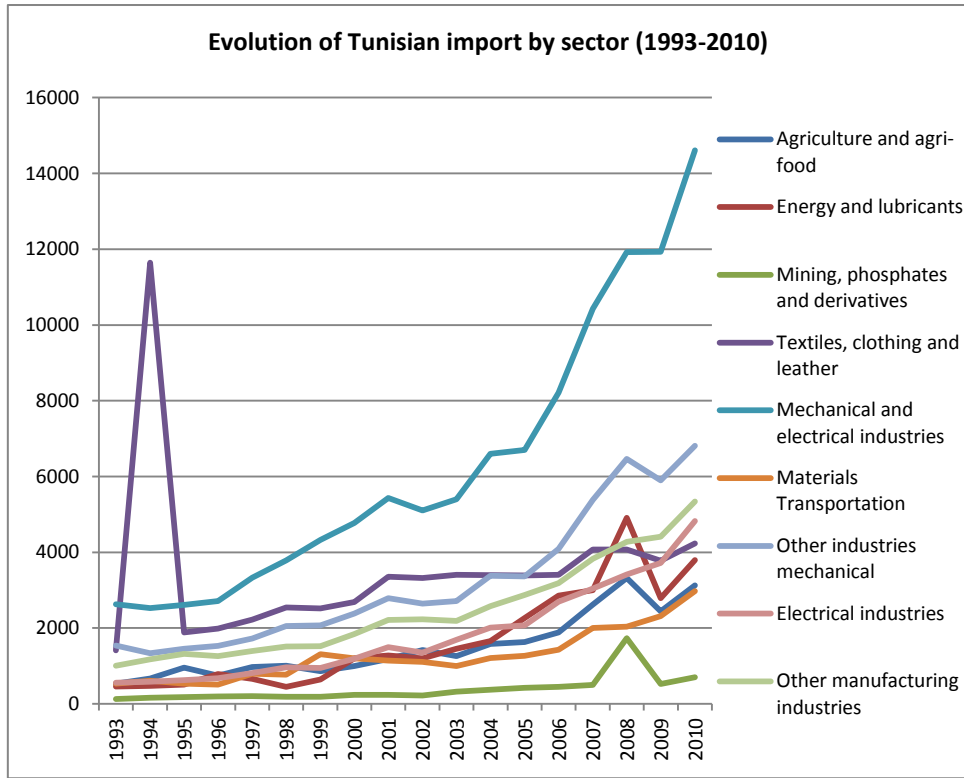
Figure 19: Tunisian Import by sector (2010)



Source: processed from "Institut National de la Statistique" data

These figures indicate a **high degree of pertinence** of the project, since the credit line was conceived to allow the purchase of machinery. As the graph below clearly shows, relative purchases have spiked sharply, compared with other sectors, over the past 18 years.

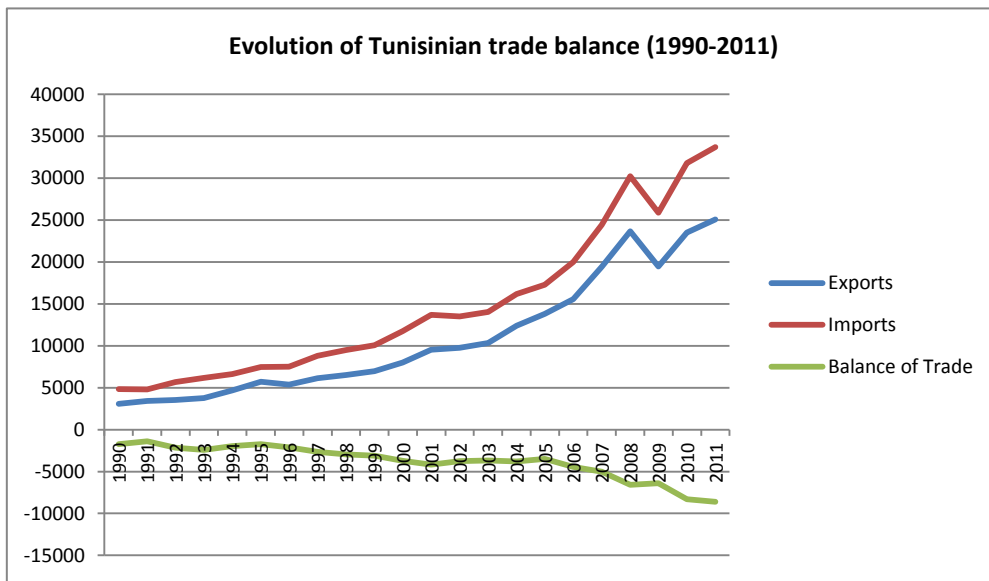
Figure 20: Evolution of Tunisian import by sector



Source: processed from "Institut National de la Statistique" data

We can thus state that the **project is very pertinent to the macro-economic context**, since the credit line is used in sectors having high demand and that make a substantial contribution to the country's trade balance, which is given below in graph form as a time series for the past twenty years.

Figure 21: Evolution of Tunisian trade balance



Source: processed from "Institut National de la Statistique" data

## Previous experiences in the sphere of aid credit for Tunisian small and medium enterprises

The project to which the evaluation refers was **preceded by 6 similar projects** financed by Italian cooperation, as per the table below.

*Table 11: The previous Italian credit lines*

The previous programmes						
	Credit line 1	Credit line 2	Credit line 3	Credit line 4	Credit line 5	Credit line 6
<b>Year of approval</b>	1988	1996	1999	2000	2001	2004
<b>Operation start</b>	1991	1998	2001	2001	2002	2005
<b>Total funding</b>	50 MUSD	30 MUSD	56 MD lire	60 MD lire*	32,5 MEUR	36,5 MEUR
<b>Resources used</b>	49,7 MUSD	29,52 MUSD	27,01 MEUR	20,6 MEUR	32,2 MEUR	36,4 MEUR
<b>Average funding</b>	260.000 USD	615.000 USD	928.000 €	557.000 €	557.000€	455.000 €
<b>beneficiary SMEs</b>	192	49	29	37	36	80

\*State-controlled enterprises are also eligible

As can be seen, the 6 previous lines of credit provided loans for 423 SMEs. Of the 62 enterprises receiving loans from the seventh credit line now being assessed, 12 had **already received loans** in the past from one of the previous 6 lines of credit.

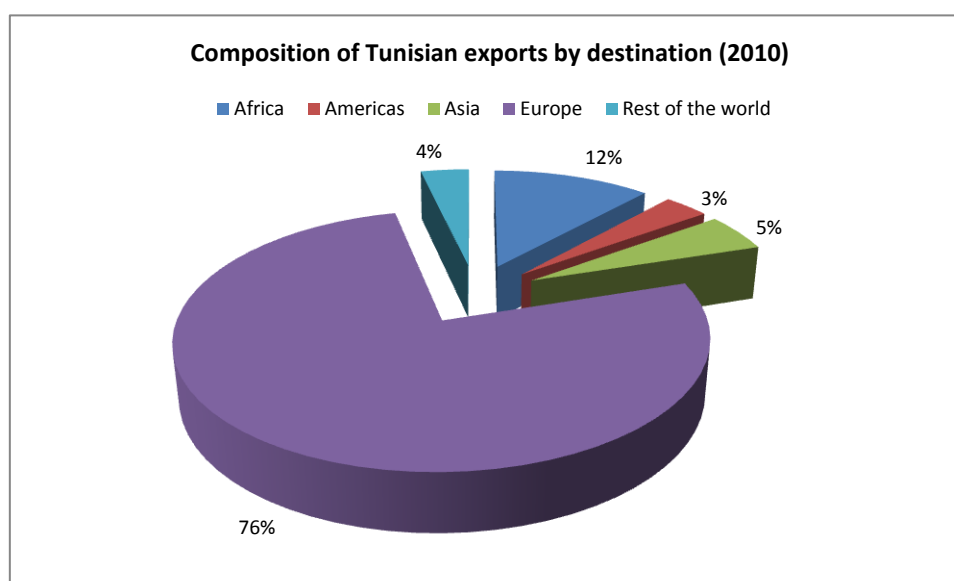
In terms of pertinence, the Italian credit line initiative thus forms part of a **long “tradition”** of similar measures, and thus appears to be very pertinent.

### Trade flows between Italy and Tunisia

Another criterion considered to determine the pertinence of the project is that of the analysis of trade flows between Italy and Tunisia. The credit line envisages the purchase of machinery from Italian makers and a framework of intense commercial ties is undoubtedly **indicative** of the project’s **pertinence**.

As the graph below shows, 76% of **Tunisian exports** in 2010 were directed at Europe, followed by Africa (just 12%, chiefly the regional North African market). Other geographic zones do have very small market shares of between 3 and 4%.

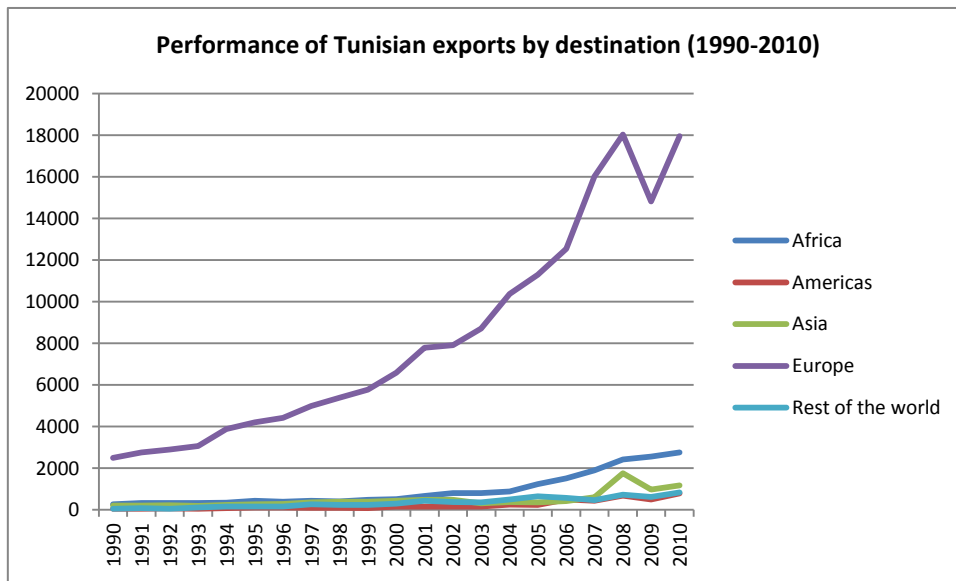
*Figure 22: Composition of Tunisian exports by destination*



Source: processed from "Institut National de la Statistique" data

It is interesting to note that Europe’s dominance as the destination for Tunisian exports has been **growing** over the past twenty years, as the graph below shows.

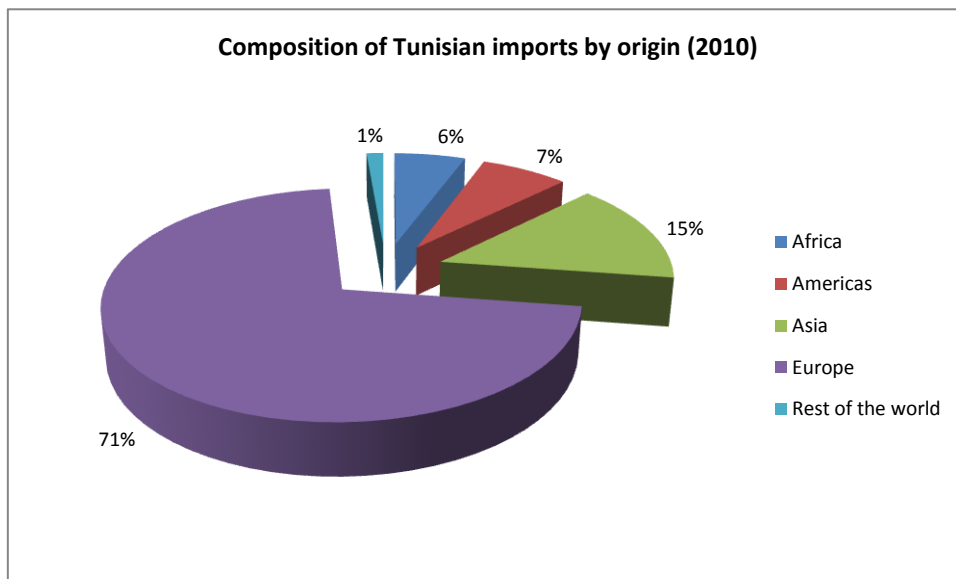
Figure 23: Performance of Tunisian exports by destination



Source: processed from "Institut National de la Statistique" data

The **importance of Europe** in Tunisia's trade relations is corroborated by imports from that area, reaching 71% in 2010, followed by Asia (15%), as per the graph below.

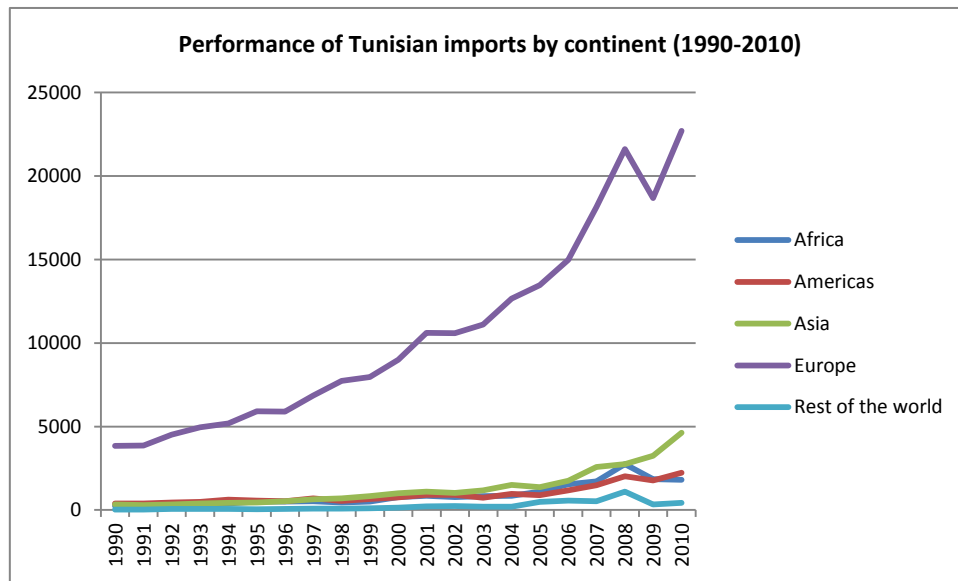
Figure 24: Composition of Tunisian imports by origin (2010)



Source: processed from "Institut National de la Statistique" data

The time series for imports for the past twenty years shows the **high penetration capacity of European products** in the Tunisian market, even though in recent years Asian countries have posted good increases, they are still far from European levels.

Figure 25: Performance of Tunisian imports by continent

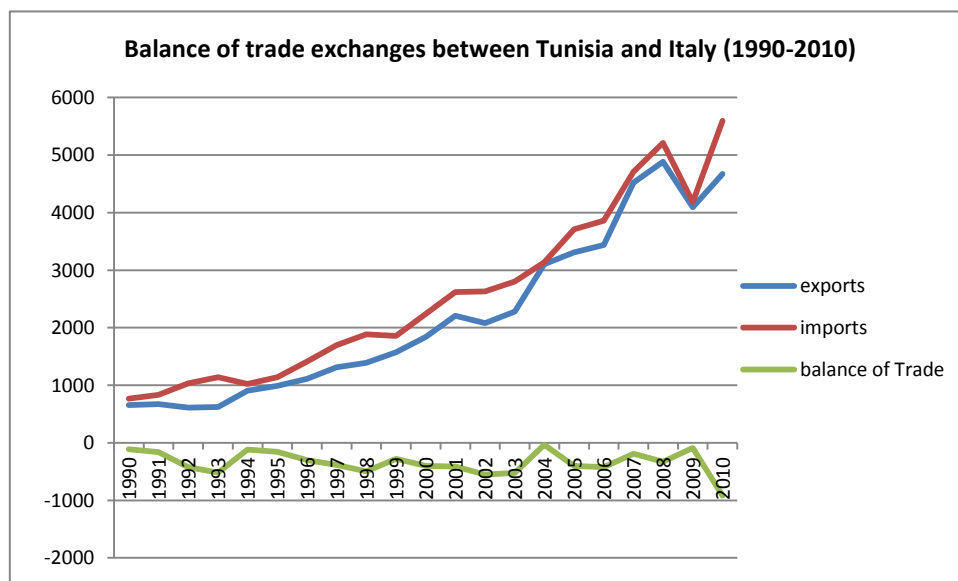


Source: processed from "Institut National de la Statistique" data

A first point to emerge from the analysis of Tunisian trade flows with major geographic areas appears to be the **high degree of pertinence of the project**, since Tunisian economic operators appear to clearly prefer trade ties with Europe, and this is so for imports too for which, unlike other countries in the area, Asian players are still **finding it hard** to penetrate the Tunisian market.

Analysing flows with Italy, a fundamental aspect in view of the fact that loans available for Tunisian firms were intended for the purchase of Italian machinery, the pertinence of the projects is **further reinforced**. As the graph below regarding trade between the two countries over the past 20 years shows, there is a clear **upward trend** for the time series, notwithstanding a very small decline during the recent political and institutional revolution that has rocked Tunisia.

Figure 26: Evolution of trade exchanges between Italy and Tunisia

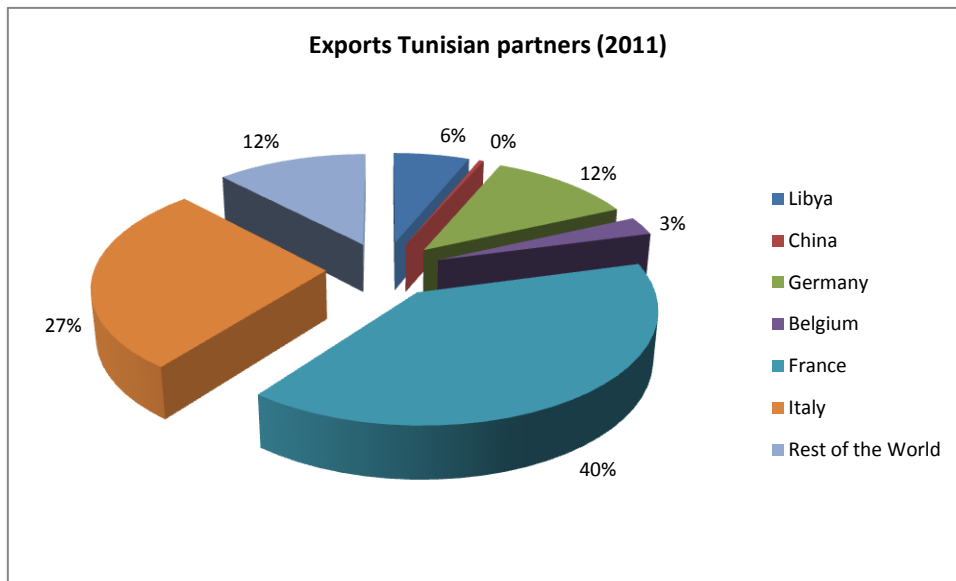


Source: processed from "Institut National de la Statistique" data

In this picture it is interesting to note that in 2011 27% of Tunisian exports were directed towards Italy, preceded in importance only by France as country of destination (40%), as shown in the chart below.



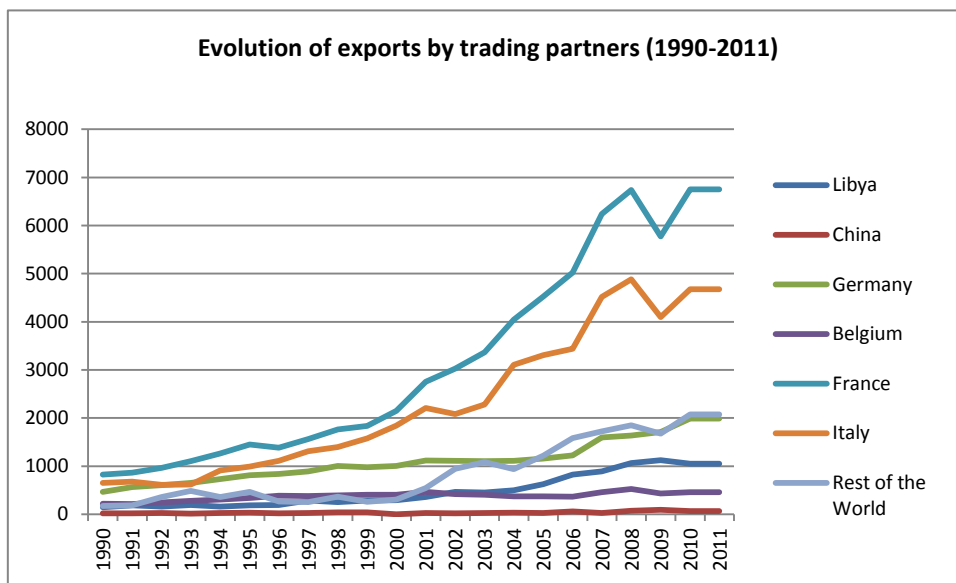
Figure 27: Exports Tunisian partners



Source: processed from "Institut National de la Statistique" data

The time series for exports to Italy over the last twenty years confirms its importance as **preferred trading partner** immediately behind France, which remains the main destination of Tunisian exports.

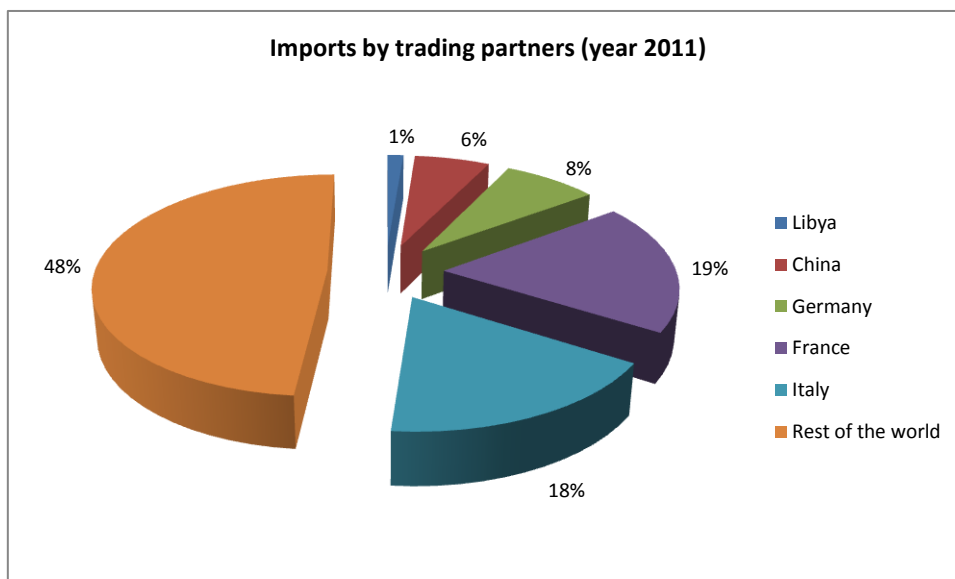
Figure 28: Evolution of exports by trading partners



Source: processed from "Institut National de la Statistique" data

The share of imports from Italy appears to follow a **similar trend**, reaching 18% in 2010, preceded again only by France (19%). It is important to note, as the graph below shows, that the figure for China is a modest 6%. This is of great interest for assessing the pertinence of the project, since Chinese products, unlike the situation in many other countries of the region, have still not been able to really penetrate the Tunisian market.

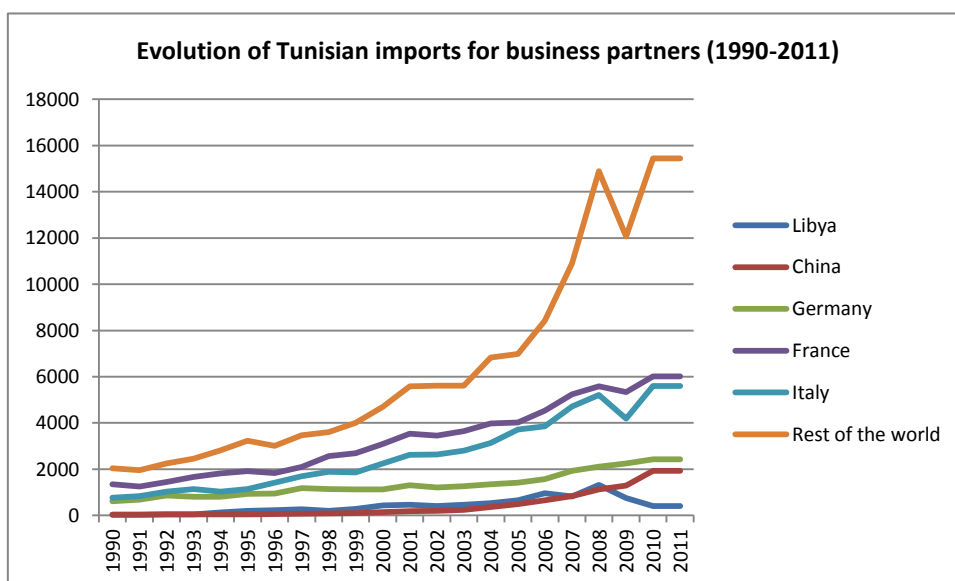
Figure 29: Imports by trading partners (year 2011)



Source: processed from "Institut National de la Statistique" data

Italy, therefore, not only plays a **leading role** for Tunisian imports, and more generally for trading ties, but it is a role that has been **constant over time**, as shown by the time series for imports shown in the graph below.

Figure 30: Evolution of Tunisian imports for business partners



Source: processed from "Institut National de la Statistique" data

With regard to trade flows between Italy and Tunisia, the **project is thus very pertinent**, and the conditionality of the credit line on the purchase of Italian machinery, far from being a constraint or a limitation for Tunisian SMEs, is totally in keeping with the reality of "traditional" trade between the two countries. In this sense the most evident fact is the non-use of the possibility for Tunisian enterprises to set aside 30% of the loan for the purchase of Tunisian machinery and equipment: almost all Tunisian beneficiaries, indeed 61 out of 62, did not use this possibility, preferring to use the entire sum available for machinery made in Italy.

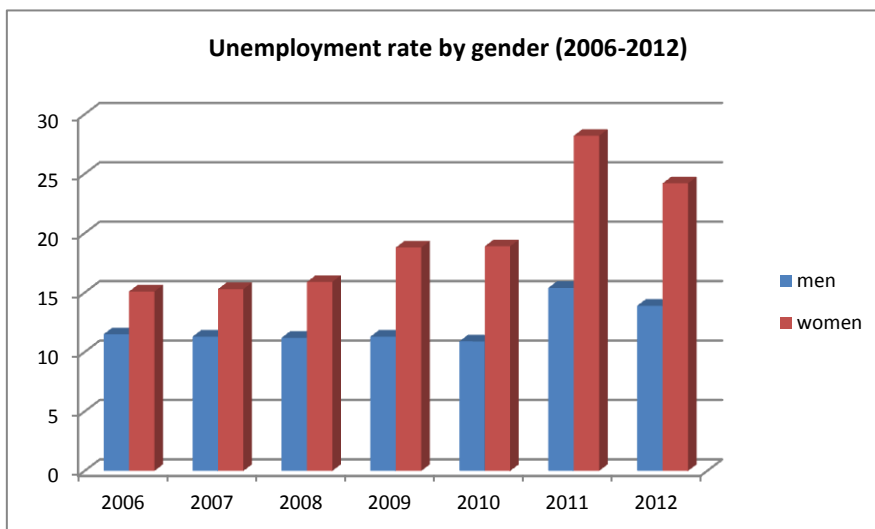
#### Job creation

The fifth criterion used to define the pertinence of the project is that of **job creation**. The project document was particularly insistent on the point that one of the criteria for gaining access to loans was the number of jobs

created following the purchase of Italian machinery and technologies obtained thanks to the credit line now being assessed.

Unemployment, one of the **greatest criticalities of Tunisia's economic system**, has grown over the past 7 years, with particularly worrying peaks in 2011, touching 15% for men and about 28% for women.

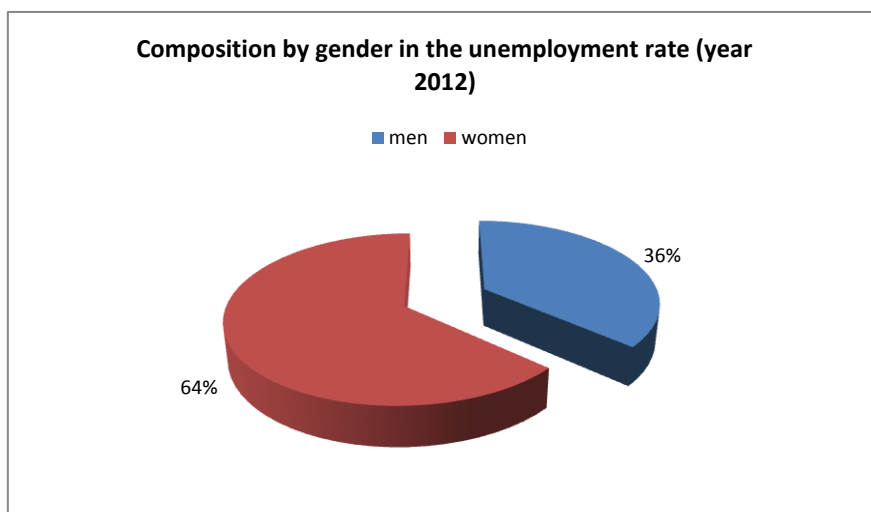
Figure 31: Unemployment rate by gender



Source: processed from "Institut National de la Statistique" data

Looking at the **gender composition** of the jobless population, 36% were men, while women naturally made up 64% of the total, as the chart below shows.

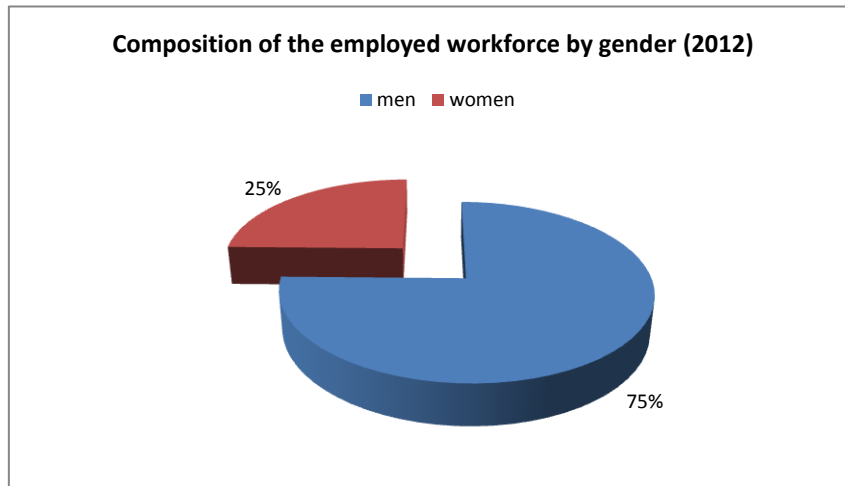
Figure 32: Composition by gender in the unemployment rate (year 2012)



Source: processed from "Institut National de la Statistique" data

This big gender difference is obviously reflected in data regarding the working population in possession of a job, made up of men to the tune of 75% and women the remaining 25%, as shown in the chart below. Official accounts naturally do not take into account the **informal and hidden economy**, where it is presumed more women are working.

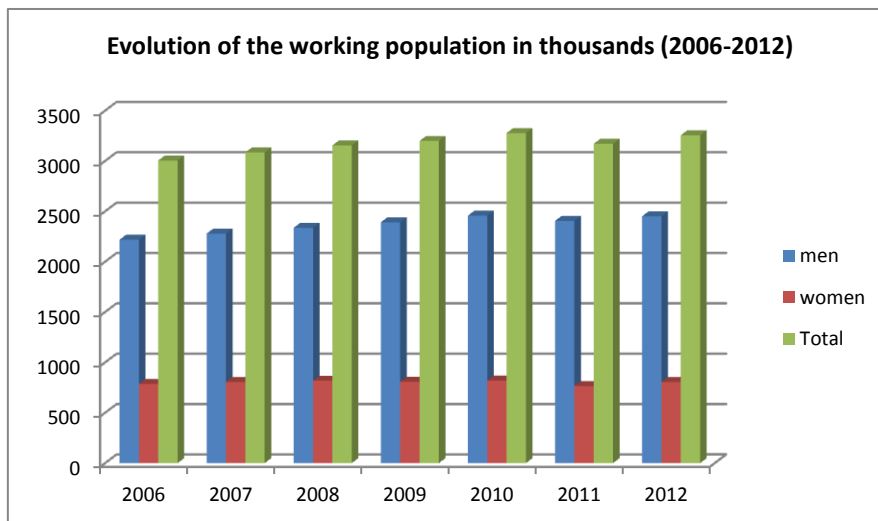
Figure 33: Composition of the employed workforce by gender



Source: processed from "Institut National de la Statistique" data

If one considers trends for the working population, there has been a clear **stagnation** as regards the number of men and even a **drop in the number of employed women** over the past 5 years, as shown below.

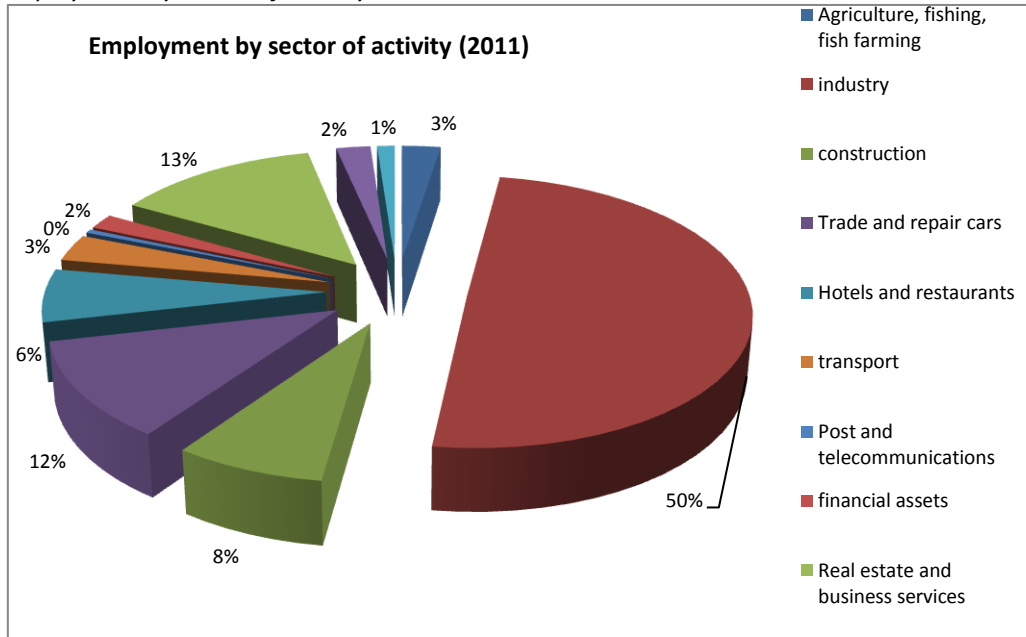
Figure 34: Evolution of the working population



Source: processed from "Institut National de la Statistique" data

Examining data for 2011 on **employment by sector of activity**, it appears clear that industry is the leading sector with 50% of workers, followed by building (13%) and agriculture (12%).

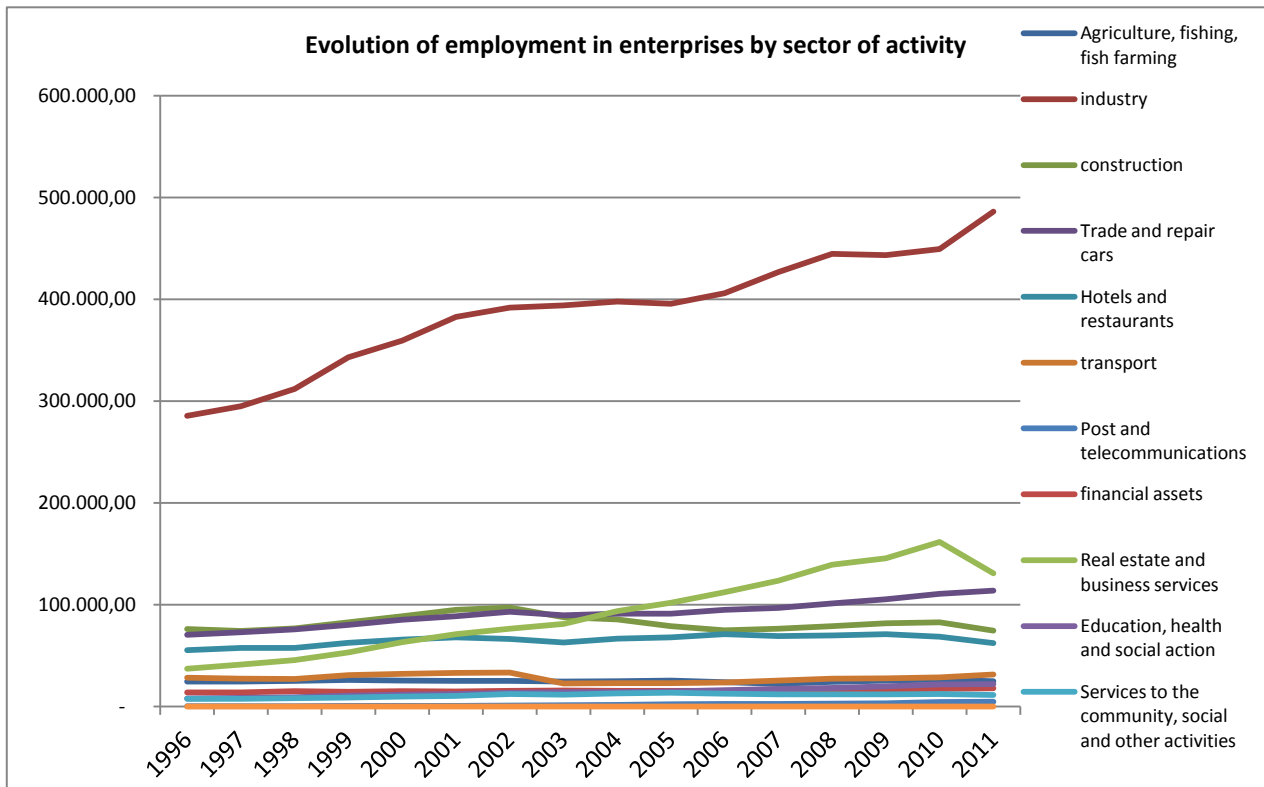
Figure 35: Employment by sector of activity



Source: processed from "Institut National de la Statistique" data

The time series for the past sixteen years on employment by sector highlights the **significant increase for industry**, followed by real estate and business services (even though numbers have fallen in recent years), education and healthcare.

Figure 36: Evolution of employment in enterprises by sector of activity



Source: processed from "Institut National de la Statistique" data

So with regard to employment too the project is **highly pertinent** and in line with the priorities of national job creation policies. The sectors most involved the project are also those marked by the highest growth rates, once again bearing witness to its pertinence.

It should be noted however that the project **does not consider the issue of unemployment among women**, which represents both an economic and above all social priority.

Without wishing to alter the team’s evaluation of the excellent pertinence of the project, it may have been possible to pay closer attention to the question of women in the workplace, the real **backbone** of some sectors such as agrifood, the electrical sector, chemicals, etc.

#### Pertinence in a nutshell

Looking at the five pertinence indicators taken into consideration, with a scale of 1 to 5, where the lowest score is in purple, a score of 2 is indicated in red, 3 in yellow, 4 in green and the top score of 5 in blue, the table below shows the results of this ranking.

Pertinence	
Weight of SMEs in Tunisian economy	Blue
Macro-economic context	Blue
Previous experiences	Blue
Trade flows between Italy and Tunisia	Blue
Job creation	Green

**Conclusions:** the pertinence of the project is very high; with regard to pertinence in respect of the job creation indicator, pertinence is not so high in view of the fact that the project fails to take into consideration the question of women’s employment as a top priority.

	Strengths	Weaknesses
<b>Pertinence</b>	<ul style="list-style-type: none"> <li>• excellent pertinence of the project in respect of all macro-economic indicators</li> <li>• the project is part of a framework of well-established relations with Italy, trading, social and cultural</li> <li>• very close matches between project choices (sectors, location, etc.) and the country’s scale of priorities</li> </ul>	<ul style="list-style-type: none"> <li>• the question of job creation is not sufficiently developed in terms of gender differences</li> </ul>

#### 3.2.2. Validity and quality of logical framework

Despite being **realistic** in terms of expected results, the logical framework presents **some problems** in relation to objectives, indicators and activities.

With regard to objectives, the specific aim is actually a general aim, and the **paradox** is that what lies at the heart of the project is not reported, namely improving access to credit on the part of Tunisian SMEs.

In terms of results, despite mentioning a target that has basically been achieved (80 enterprises and creation of 1,500 new jobs) in the indicators box, some eligibility conditions rather than actual results are cited.

With regard to indicators, they are **indicators not objectively measurable** (with reference to objectives) or result-based indicators. **Impact-based indicators are totally absent**, probably due to the fact that the project does not entail any ongoing monitoring or assessment activity.

With regard to testing and checking information, the gathering of information directly from beneficiaries is **totally absent**.

Activities are reported in a **very partial manner** compared with plans and, as a result, with activities actually performed.

Finally, conditions or hypotheses are described in a **very pertinent and precise manner**.

A global evaluation of the logical framework leads us to conclude that this **was not conceived as a veritable instrument** for the planning and monitoring of project implementation, but as a **simple procedural obligation**.

The table below takes into consideration different aspects of the logical framework, for each of which the same evaluation system is used, with a scale of 1 to 5 represented by different colours.

Validity and quality of the logical framework	
Formulation of objectives	
Formulation of expected results	
Correct formulation of indicators	
Coherence of monitoring information	
Formulation and coherence of activities	
Formulation of conditions or hypotheses	

**In conclusion:** the logical framework presents serious shortcomings, and was not conceived as an instrument for planning and monitoring project implementation.

	Strengths	Weaknesses
<b>Logical framework</b>	- good description of conditions or hypotheses	- Generally lacking in all aspects with the exception of hypotheses or conditions

### 3.2.3. Effectiveness: expected results and unforeseen results

The effectiveness of the project was measured in relation to some **general parameters** and **results of the in-depth analysis** on a representative sample of beneficiary enterprises. With regard to general aspects, the team took into consideration: the presence of operation types (enterprise creation, consolidation or restructuring), geographic distribution of beneficiaries and the conduct of banks in terms of lending conditions offered to beneficiaries.

The first aspect, the **geographic distribution of beneficiaries**, has already been described in the chapter describing the project. In this evaluation phase we can reiterate the importance of expanding the possibility for Tunisian SMEs to access credit, even those from governorates outside the urban area of the capital ("Greater Tunis"). The large percentage of enterprises located in the rest of the country (74%) is without doubt an indicator of the **great effectiveness** of the project, which was able, thanks to information dissemination activities, to reach businesses geographically situated a **long way from** the capital.

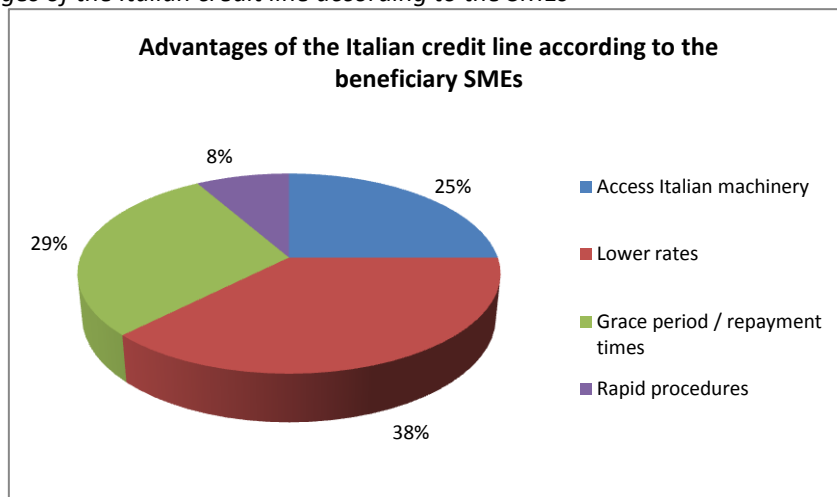
The second aspect relates to **types of financing operations**. 29 loans, corresponding to 46.8% of the total, related to enterprise creation operations, while consolidation operations numbered 32 (51.6%). Finally, the credit line financed only one enterprise restructuring operation, 1.6% of all operations. Being a project centring on the granting of loans to Tunisian SMEs, which it is assumed found it difficult to obtain funding, the large presence of enterprise creation operations is without doubt a **positive factor regarding the effectiveness of project**, which fully achieved its objectives in this sense. It is evident indeed that financing new enterprises raises credit risks for banks.

It should be said however that even though the project paid special attention to the potential of Tunisian entrepreneurs involved in the creation of businesses, it is also true that, unlike what one might think, the decisions of reviews undertaken by banks in respect of applications received **were based not so much on the qualities of the project** or the entrepreneurial abilities of the owners or managers as on the **question of collateral**. In 14 of the 15 enterprises in the sample, indeed, i.e. 93.3% of cases, the owners had to produce collateral in the form of mortgages on industrial plants, land and buildings, and in one or two cases even their homes. The fact that applied rates were slightly lower than market rates and the fact that SMEs were able to

avoid paying cash received in the medium term at short-term loan rates was certainly an **undoubted advantage**, and above all more rational in terms of the business's financial management.

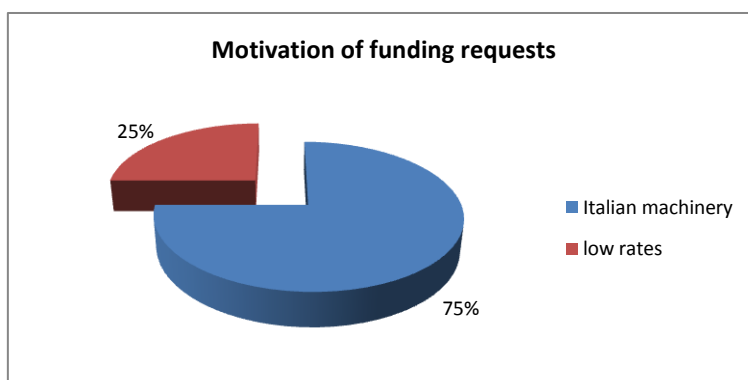
The 15 enterprises of the sample appear to appreciate an aspect that is key to their activity: the possibility of borrowing at subsidised rates in order to strengthen or boost production capacity and competitiveness by purchasing Italian machinery and equipment. This fact is not unimportant, since not only is Italian machinery and equipment highly valued by Tunisian entrepreneurs, it is often an **ideal solution** in sectors such as agrifood, textiles and construction, common to both countries. It is interesting to note that the opinion of 15 enterprises of the sample about the advantages of the credit line includes 25% of answers regarding the possibility of acquiring Italian machinery, as illustrated in the graph below.

Figure 37: Advantages of the Italian credit line according to the SMEs



Asked why the enterprise had applied for a loan from the Italian credit line, 75% of respondents said that it was done to be able to purchase Italian machinery, and only 25% had done so for the low lending rates. We may therefore state that the **biggest attraction** of the credit line was that of being able to acquire products based on Italian technology.

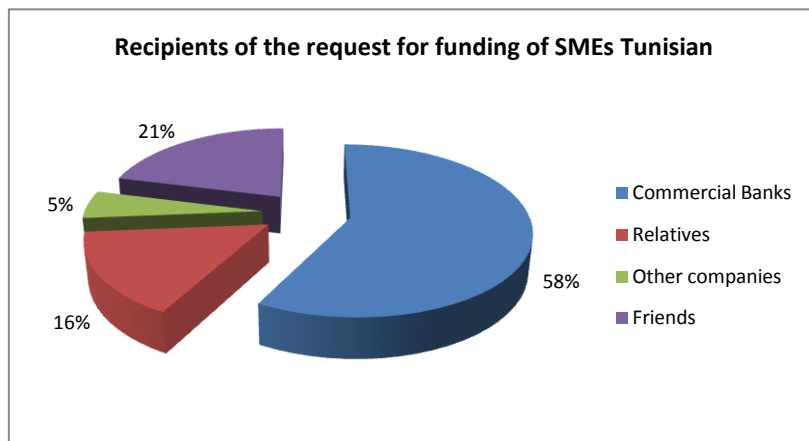
Figure 38: Justification for the request for funding



A large percentage of Tunisian entrepreneurs **were already in contact** with Italian producers when the credit line came into being regarding supplies, and in many cases they would have applied in any case for funding, from banks and from private sources. It is interesting to note on this point that in 42% of cases the entrepreneurs in our sample had sought funding from informal or family sources, as the graph below shows.

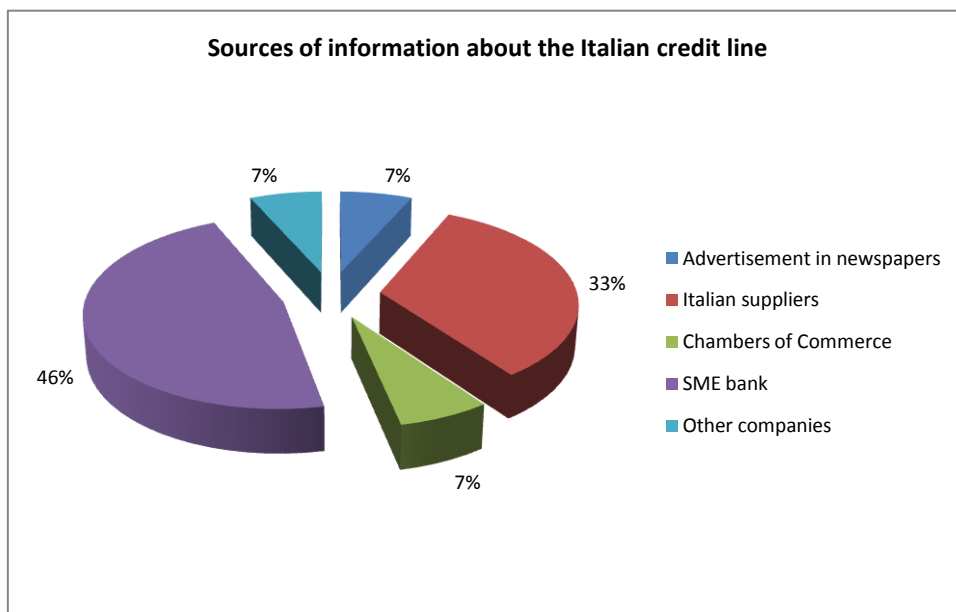


Figure 39: Recipients of the request for funding of SMEs Tunisian



It emerged from the interviews with Tunisian entrepreneurs in the sample that in many cases **there had already been contacts between Italian and Tunisian firms**. This is confirmed by the fact that a significant percentage of entrepreneurs learned of the credit line from Italian suppliers, as the graph below shows.

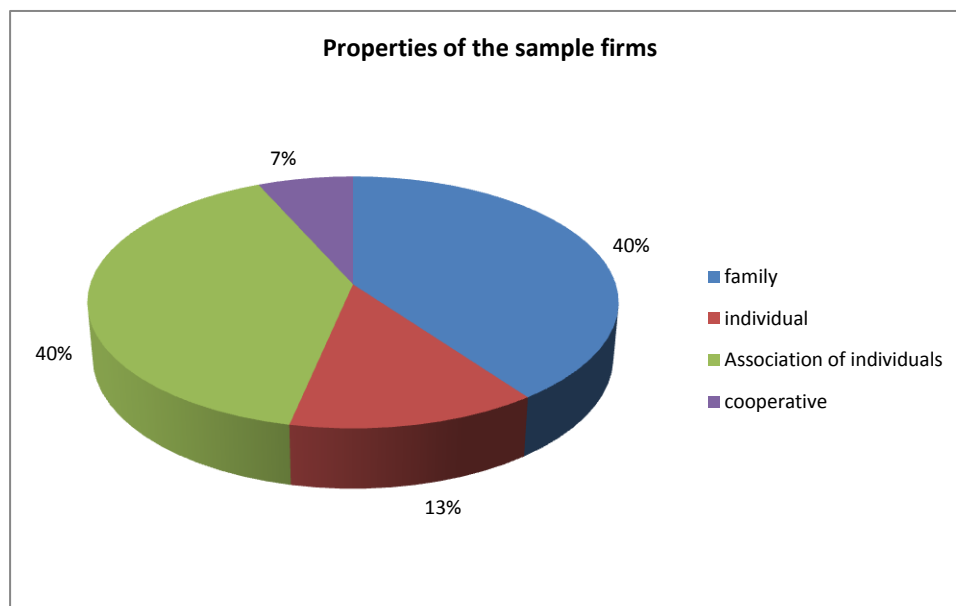
Figure 40: Enterprise sources of information about the Italian credit line



It is thus evident that the project was marked by a **high degree of effectiveness**, as seen from interviews with sample entrepreneurs, showing that access to credit has always been a reason for the limited growth of their business activities.

Many of the enterprises forming part of the sample, and presumably this is so for most of the 62 SME beneficiaries, are **family-run businesses** in which family and relatives play a crucial role, as the graph below shows.

Figure 41: Ownership of the sample firms



It is also interesting to note that in 13 of the 15 cases the owner or owners **work in the enterprise**, and that **family members work in the enterprise** in 8 out of 15 cases (53.3% of the sample).

With regard to the loan application, 14 of the 15 enterprises did not resort to **any technical advice**, and in all cases did not have **any type of support** with loan management.

In short, while the project was **highly effective** as it solved a problem relating to the possibility of obtaining long-term funding for the purchase of machinery and equipment in order to raise the production capacity of beneficiaries, on the other hand enterprises did not receive technical support or advice either in the loan negotiating phase or in relation to possible unforeseen circumstances, such as those occurring in Tunisia in recent years.

It emerges from this picture that at least the SMEs in the sample **did not have adequate negotiating powers** in relations with banks and, although the opinion on opportunities afforded by the project was unanimously positive, **some criticism was raised** about one of the key actors: Tunisian banks. In practice, the issue relates to the basic framework of the project, which assigns to these actors **a key role** in selecting the applications to be presented to the Cooperation Office in Tunis, and secondly to the fixing of **repayment terms and rates**, which often varied considerably from one bank to another. So the criticalities in this sense were three in number: collateral, grace period and duration of the loan.

The problem of **collateral** has already been analysed in terms of the conduct of banks. Although the credit line forms part of the framework of development cooperation, banks appear to be interested only in playing a **purely commercial role**, without taking into account factors such as the innovative nature of projects presented by promoters, job creation, etc. Although the promoting enterprise has to present a number of documents, including a general business plan, environmental impact assessment, estimate of new jobs created, and so on, in actual fact the **banks' decision is based solely on the presence of collateral** that entrepreneurs are able to offer to cover the loan. Since banks are private operators, their behaviour is **absolutely legitimate**, even though we must note that the interpretation of their role is undoubtedly **limiting**, indicative of a way of going about banking that is quite isolated from the general context in which they operate.

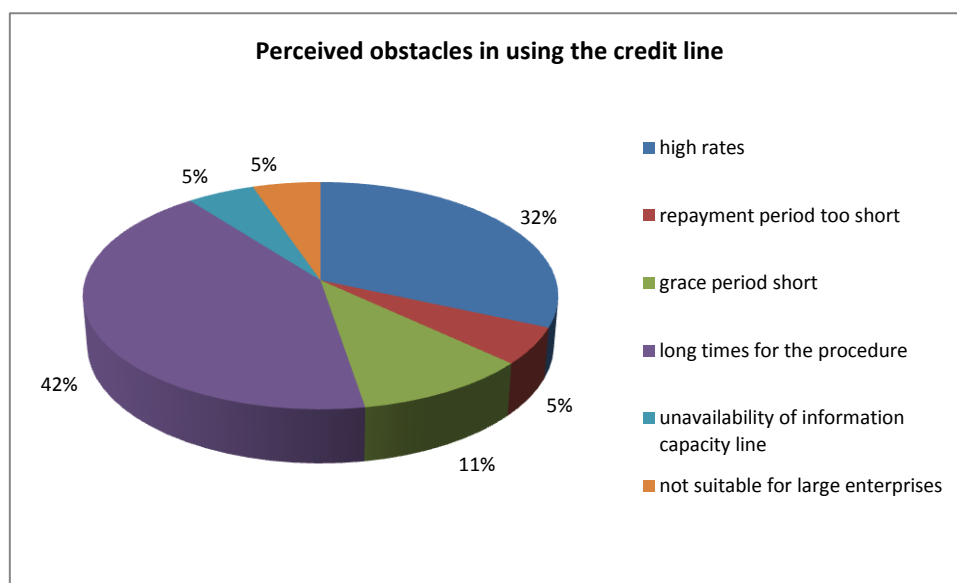
The second aspect, that of the **grace period**, takes on special significance, and has raised the largest amount of criticism on the part of beneficiary enterprises. One of the biggest attractions of the Italian credit line in favour of Tunisian entrepreneurs was the grace period of up to 3 years, yet **very seldom** have enterprises been able to make use of this possibility, since banks have often reduced this period to 2 years, and in some cases just 12 months. This has **upset the very sense of the project, which was designed to encourage long-term investments**.

It should be added that in any case the grace period, be it 3 years, 2 years or just 12 months, **coincided in all cases with a period of great political and institutional turmoil** in Tunisia, which for a long time has blocked, or at least considerably slowed down, the country's economic and productive activity. The so-called "Arab spring" has been termed a "revolution" in Tunisia, indicating a radical change of Tunisian institutions. It is thus clear that during the long period of economic sluggishness, and for sectors such as the building industry a veritable freeze, enterprises **did not have the possibility of amortising investments** undertaken during the grace period.

For many of these enterprises, in particular in the construction and agrifood sectors, making up 71% of enterprises granted credit (and in terms of loans 74.2% of the entire sum), **it was not possible to make use of the grace period**, and attempts to renegotiate with banks proved in vain, despite the Banque Centrale de Tunisie inviting credit institutes to exercise flexibility. According to information obtained from the evaluation mission, of the numerous banks involved only BFPME, perhaps because of its statutory aims, began to really consider the possibility of extensions or renewals, albeit very modest, of the grace period.

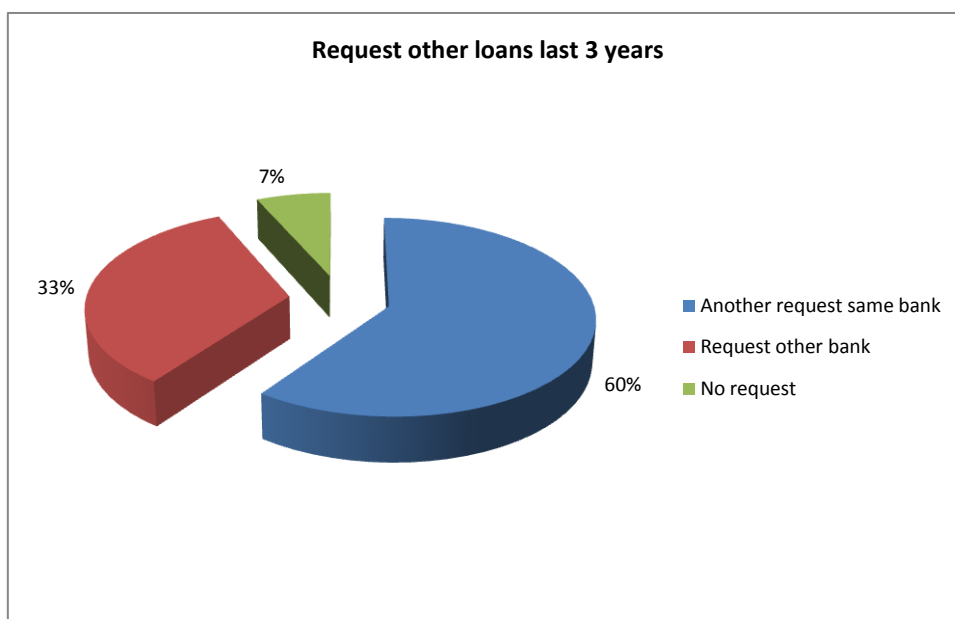
This **lack of flexibility** on the part of credit institutes also emerged in relation to the **duration of loans**. In this case too many enterprises of the sample complained about what was called the **excessive arbitrariness of banks**, which did not always grant the maximum repayment period of 10 years. It is interesting to note that while interviewed entrepreneurs did not verbally express any criticism, when they formally replied to questionnaire questions on the perception of obstacles, they stressed the question of high rates and the length of procedures to free up the loan. This question will be tackled, together with that on the availability of capacity of the credit line, in the paragraph on efficiency. Below is the chart regarding **perceived obstacles** for the full effectiveness of the credit line.

Figure 42: Perceived obstacles in using the credit line by the beneficiary enterprises



This **gap between formal answers and criticism raised** during the interview may be explained by the fact that all enterprises in the sample (and according to the Banque Centrale de Tunisie the set of 62 beneficiaries), while not agreeing with some conditions, **did not have difficulty** paying back the loan in line with established time frames. This is confirmed indirectly by the fact that almost all enterprises in the sample had **resorted to other loans from the banking system** which were not used, according to information obtained by the evaluation team, to pay back loans obtained from the Italian credit line. The chart below gives complete data on loan applications made by enterprises in the sample over the past 3 years.

Figure 43: Request for other loans from firms in the sample



This picture, showing **one or two criticalities in relations between businesses and the banking system**, clearly shows up the **lack of monitoring and support functions** on the part of the project, whose role **appears to begin and end with the approval of the loan**, without any apparent possibility of intervening regarding repayment terms (including the grace period), which remain the unquestionable prerogative of intermediary banks.

It should be said, finally, that all entrepreneurs interviewed, as well as other institutional actors involved in the project's implementation, view the Italian credit line as being **more effective** than other lines of credit, such as those of Spain (quite similar to the Italian one) and above all the French and German lines.

In conclusion, although the effectiveness of the project is generally **excellent**, we must also consider the criticism levelled by entrepreneurs against intermediary banks, whose behaviour, apart from the question of collateral, appears to **slightly tarnish** the very high effectiveness of the Italian credit line. The opinions given are summarised below.

Effectiveness	
Operation types	Blue
Geographic distribution	Blue
Access to technologies and equipment	Blue
Credit line terms and conditions	Green
Technical support for enterprises	Red
Behaviour of banks	Yellow

**In conclusion:** the effectiveness of the project proved to be generally high, although some criticism emerged regarding the behaviour of intermediary credit institutes.

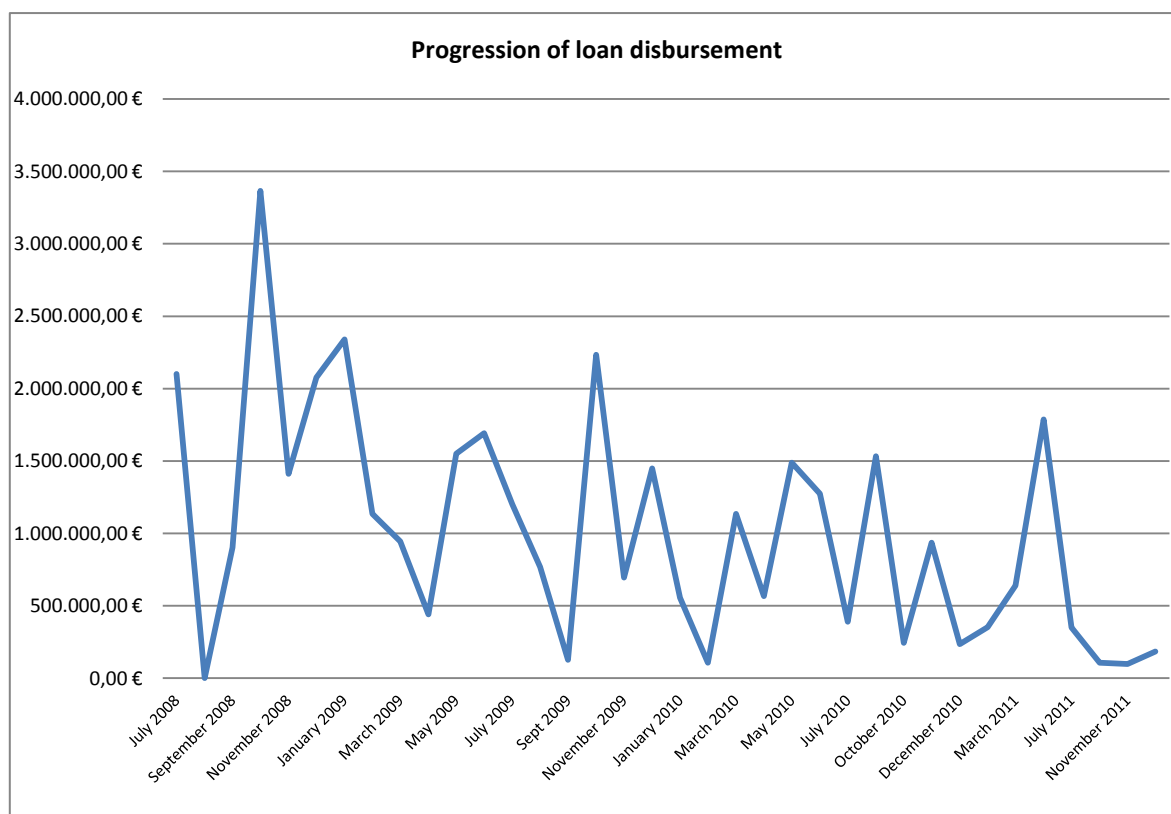
	Strengths	Weaknesses
<b>Effectiveness</b>	<ul style="list-style-type: none"> <li>- Support with enterprise creation</li> <li>- Geographic distribution throughout the country</li> <li>- Access to technologies and machinery to raise competitiveness</li> <li>- Creation of networks and partnerships among Italian and Tunisian entrepreneurs</li> </ul>	<ul style="list-style-type: none"> <li>- Lack of flexibility on the part of banks</li> <li>- No support for enterprises</li> </ul>

### 3.2.4. Efficiency

The efficiency of the project is **extraordinarily high** for at least 4 of the aspects considered, even though in at least one case there is a **critical factor**.

As regards the first aspect it should be stressed that the project **allotted all available funds within a very short space of time**, as soon as the credit line became available, as the graph below shows.

*Figure 44: Progression of loan disbursement*



Source: processed from UTL Tunis data

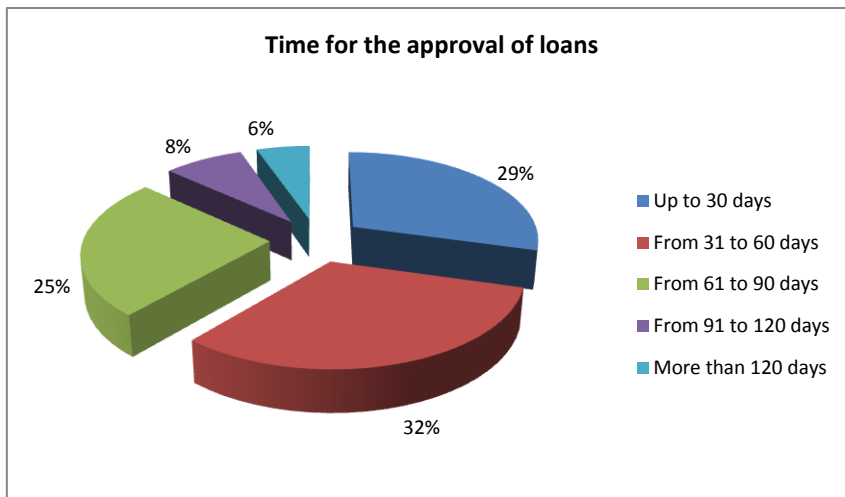
Secondly, it is important to stress that the project achieved **very important results**, as we shall see in the analysis of its impact, despite a very modest outlay for central authorities. The two spending items consisting of an expert recruited from MAE-DGCS to help the director of the Cooperation Office with the job of approving applications, and promotional activities, proved to be **surprisingly modest** taking into account the amount of work to be done and the **results achieved**. This efficiency, which has seen a portion of the funds for promotional activities returned to the Treasury, was made possible thanks to the **full and optimal involvement of all human resources** present in the Cooperation Office in Tunis and to their **deep knowledge** of the Tunisian context.

Finally, another aspect worthy of mention is the **excellent organisation of the cooperation office of Tunis** that closely followed credit line activity. The result of this optimal organisation is the existence of both a hard copy and a computerised archive, **containing all details of the project**, of crucial importance in implementing the project. It may be seen from the vast archives that the structure designated with the task of seeing to the credit line reached **an extremely high level of efficiency in carrying out its tasks**.

This optimal use of financial and economic resources at the project's disposal was slightly at odds with the **question of waiting times for SMEs** as regards the final freeing up of approved funds. This delay, criticised by some of the beneficiary enterprises, appears to be due to the documentation that was often incomplete sent by intermediary banks to the Cooperation office in Tunis and to the long time needed for Italian suppliers to obtain certificates, in particular anti-mafia certification, from Artigiancassa.

Compared with the commitment to complete loan application procedures in **15 days**, the actual average time required to complete the 75 operations involving 62 SMEs was **55.49 days**, much more than the target. If we consider all operations, it emerges that 29% of the total were completed within 30 days, and 24% within 60 days. The graph below gives full data on loan application procedure times

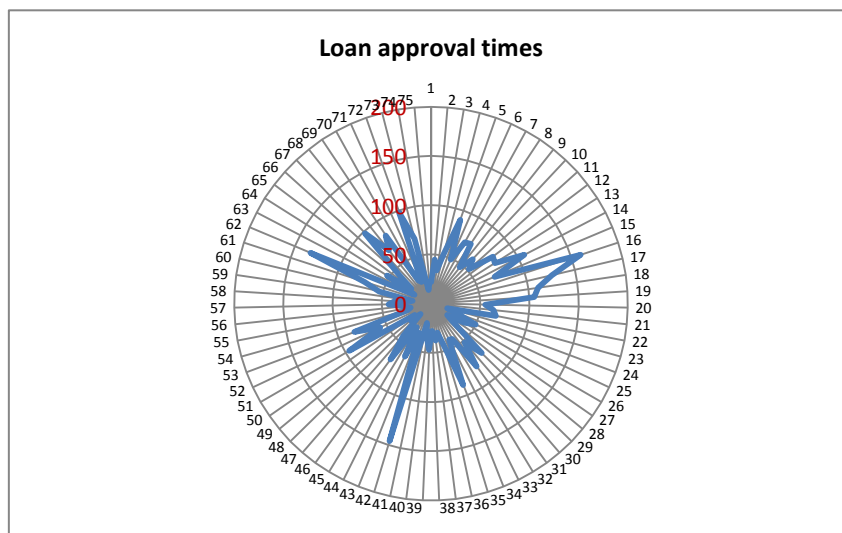
Figure 45: Time for the approval of loans



Source: processed from UTL Tunis data

As can be seen, a significant percentage of operations were completed in a **period exceeding 60 days** (39% of the total). The graph below can help to understand the broad time range for the 75 operations.

Figure 46: Time for approval of loan



Source: processed from UTL Tunis data

In short, the **efficiency of the project was excellent**, with the exception of **some criticalities** regarding loan disbursement times. The table below gives opinions expressed about the main aspects of efficiency.

Efficiency	
Use of budget	Blue
Use of technical assistance funds	Blue
Use of promotional activity funds	Blue
Organisation of Cooperation Office structure	Blue
Loan approval times	Yellow

**In conclusion:** project efficiency as a whole was deemed to be excellent, with the exception of some small criticalities in terms of loan approval and disbursement times.

	Strengths	Weaknesses
<b>Efficiency</b>	<ul style="list-style-type: none"> <li>- excellent in-house organisation of Tunis Cooperation Office</li> <li>- Excellent capabilities and skills of MAE-DGCS Tunis personnel</li> </ul>	<ul style="list-style-type: none"> <li>- In some cases long waits for disbursements</li> </ul>

### 3.2.5. Sustainability

The project presented an **extremely high level of sustainability**, facilitated somewhat by the fact that it had been preceded by 6 other lines of credit that had been implemented in much the same way.

Thanks in part to the **expertise and optimal organisation** of the structure of the Tunis Cooperation Office and to the involvement of banks and organisations representing Tunisian entrepreneurs (including Chambers of Commerce), as well as other institutional partners, in particular the Banque Centrale de Tunisie and the Tunisian Ministry for Cooperation, the project set in motion mechanisms and procedures that were clear to all actors, and perfectly replicable in the future. It should be recalled in this sense that another **Italian credit line is now being prepared**, with similar implementation procedures, having a value of **73 MEURO**, which in our view can make good use of the highly positive experience acquired by the various actors to roll out the project now being evaluated.

In short, the project enjoyed an extremely level of sustainability.

**In conclusion:** the project is highly sustainable thanks to the active involvement of numerous actors in possession of specific expertise.

	Strengths	Weaknesses
<b>Sustainability</b>	<ul style="list-style-type: none"> <li>- Broad involvement of all categories of actors</li> <li>- Motivated and competent actors</li> <li>- Clear procedures and simple mechanisms</li> </ul>	<ul style="list-style-type: none"> <li>- None</li> </ul>

### 3.2.6. Impact

The difficulty of measuring the impact of a project such as that of the Italian credit line lies chiefly in the little time that has elapsed since the loans were disbursed. The approved loans were long-term, and as a **very short period** has elapsed since they were disbursed, the impact on beneficiary enterprises can only be measured in terms of **trends**.

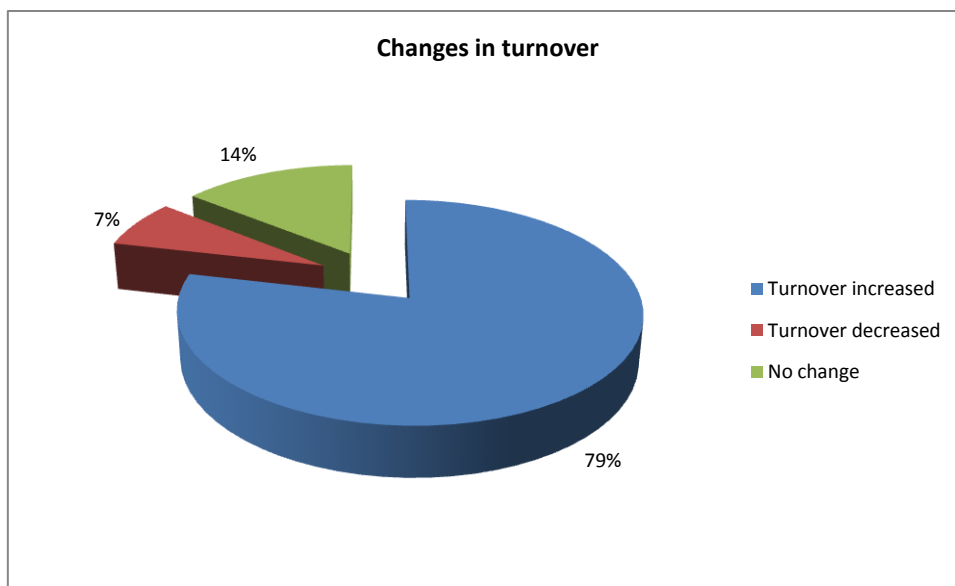
We should point out that despite the existence of a very full archive on the project held by the Tunis Cooperation Office, the information contained relates only to the loan granting procedure. As there was **no type of monitoring and no support** for enterprises once the loan for the purchase of Italian machinery and equipment was approved and disbursed, there is no sort of information about the impact of the project on beneficiaries.

For this reason the analysis of impact, conducted in terms of an analysis of trends, took into account the 15 SMEs of the sample used to study some **general aspects and some specific indicators**.

The first general aspect taken into consideration was that of enterprise revenue trends. As other similar researches have shown, there is a natural **unwillingness** for Tunisian entrepreneurs to declare their sales revenue results, and this was also true in the present evaluation. The few answers received about revenues should not therefore be deemed to be fully reliable, since entrepreneurs tend to downplay the actual economic results of their businesses.

The same entrepreneurs did however provide **reliable** answers to the question of whether global revenue had risen or fallen in the previous three years. As the graph below shows, 79% of enterprises in the sample saw a rise in revenue levels over the previous three 3 years, while in just 7% of cases was a fall observed.

Figure 47: Changes in the turnover of sample enterprises



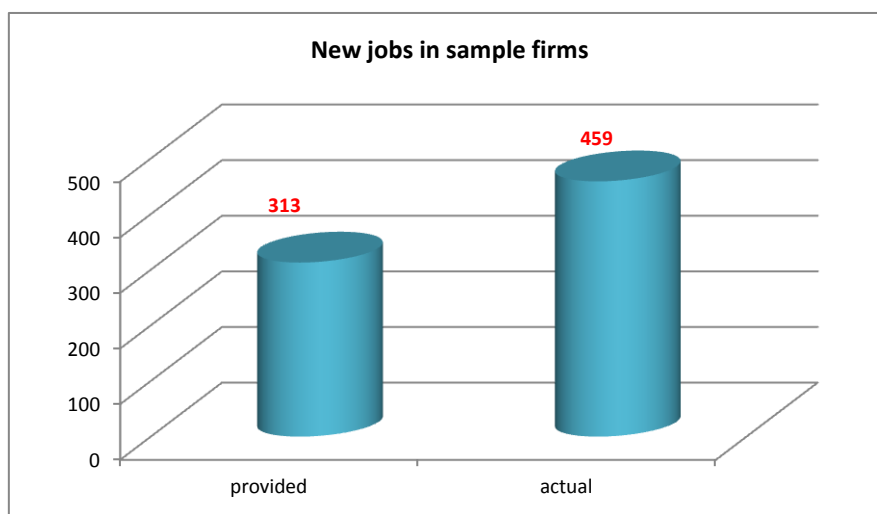
Despite **not being a direct indicator of impact**, these are aspects that are in all likelihood connected with the project, albeit **indirectly**, just as the creation of employment, which is different as an indicator. Job creation indeed is a **direct objective of the project**, and in the loan proposal was quantified at 1,500 new jobs.

At first sight, the project appears to have had a **strong impact in terms of job creation**, even though in order to obtain a more accurate estimate it would have been necessary to interview the 62 beneficiaries and compare figures before and after the project. Without information on the employment situation prior to the project, we must rely on the declarations of enterprises about the number of new jobs, which are thus expressed in differential terms. According to this figure, contained in the projects presented to banks and subsequently approved, the 62 beneficiary SMEs should have created 1,614 new jobs, of which 1,409 workers and 205 executives.

To verify if this objective has been achieved, the SMEs in the sample, granted loans for enterprise creation were taken into account, and the **difference** between the estimate given and actual numbers in terms of new employment was calculated. As the graph below shows, these enterprises had estimated the creation of 313 jobs, while in practice results were **beyond expectations**, with 459 new jobs, **46.7% more**.



Figure 48: Job creation by sample firms



In terms of job creation, therefore, the project appears to have had an **extremely big impact**.

With reference to **specific impact indicators**, the choice fell not only on some microeconomic-type categories relating to the enterprise but also more social and territorial categories to ascertain the impact on the context in which these enterprises operate.

The table below shows the set of results obtained for each indicator in terms of general changes occurring over the **past 3 years** and the relationship between this change and investments undertaken thanks to the project.

Table 12: Impact of the project on the sample firms

Changes in the SMEs and in their context as a result of the Italian credit line				
Indicators	Change (absolute value)	Change %	related to the project (absolute value)	Changes related to the project (%)
Introduction of new production systems	15	100	15	100
Introduction of new products	12	80	10	83
Access to new markets	12	80	11	92
Introduction of new standards and quality systems	7	47	3	43
Acquisition of new suppliers of raw materials	12	80	8	67
Acquisition of new partners in the production	7	47	6	86
Acquisition of new business partners	11	74	6	55
Changes in ownership	1	7	0	0
Changes in the legal	1	7	0	0
Introduction of new accounting systems	1	7	0	0
Introduction of new planning systems	2	13	0	0
Increase in workers	8	53	7	87
Change in the types of workers	4	27	3	75
Increase in working	5	33	5	100
Increase in skilled labor	6	40	4	67
Reduce polluting factors	2	13	2	100
Accession to increase business associations	2	13	1	50
Increase in the contribution to the growth area	5	33	2	40
Increased participation in local life	0	0	0	0
Increased support for NGOs and public institutions	1	7	0	0

As can be seen, some indicators bear witness to a **significant impact** on the enterprise, especially with regard to the introduction of new production systems, penetration in new markets, rise in the quantity and quality of jobs, with an interesting increase in the gender variable for this indicator. With regard to indicators more related to

the **social and territorial context**, the project appears to have had a much **lesser impact**, and in some cases no impact at all.

In short, the project appears to have made a strong impact on the revenues, production systems and internal structures of enterprises, on business in new markets and above all on job creation. There appears however to have been very little impact on the social and territorial context in which enterprises operate.

Impact	
Changes to revenue	
Changes to job levels	
Changes to production systems and in-house structures	
Changes to business in new markets	
Changes to social and territorial context	

**In conclusion:** the impact is globally very relevant as regards trends for single enterprises and job creation, but appears to be negligible or totally absent as regards social and territorial trends in the context in which the enterprise operates.

	<i>Strengths</i>	<i>Weaknesses</i>
<b>Impact</b>	<ul style="list-style-type: none"> <li>- Very strong impact on job creation</li> <li>- Big impact on trends for single enterprises (revenue, production systems, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>- Little or no impact on social and territorial trends in the context in which the enterprise operates</li> </ul>

### 3.2.7. Visibility

With regard to project visibility, the mission is able to state that, thanks to promotional activities and public events, the relational capabilities of Tunis Cooperation Office personnel and the large number of persons and organisations involved, **project visibility** was excellent.

Worthy of mention on this point is the fact that project awareness and visibility were **further strengthened** by two other factors: the **nationwide presence of the project** thanks to banks and trade organisations (chambers of commerce, trade associations, etc.) and the **good reputation** of Italian products.

On the first of these points, the 16 banks involved in the project have networks of branches all over Tunisia. This was a **crucial factor** for conveying information on the opportunities afforded by the Italian credit line. We cannot of course underestimate the valuable role played by the chamber of commerce system and by trade associations in favouring project visibility.

As regards the reputation of Italian products and machinery, we can state that this aspect was a **crucial factor** in reinforcing the already high visibility of the project.

**In conclusion:** the project enjoyed extremely high visibility.

	<i>Strengths</i>	<i>Weaknesses</i>
<b>Visibility</b>	<ul style="list-style-type: none"> <li>- Involvement of a large number of actors</li> <li>- Nationwide presence of banks and trade associations</li> </ul>	<ul style="list-style-type: none"> <li>- None</li> </ul>

### 3.2.8. Functionality of implementing mechanism

The functionality of the project implementing mechanism was **good**, thanks to well-established relations with the various actors involved. Nevertheless, at least **4 criticalities** deserve to be mentioned here.

The first criticality relates to the **absence of any sort of monitoring or technical assistance** from the time the loan was disbursed. This situation exposes enterprises to risks regarding conditions imposed by intermediary

banks, and does not allow us to have information as to the real impact of the project and actual achievement of project goals. This means that the various actors involved, including the Cooperation Office in Tunis, **generally underestimate the excellent results obtained** by the project as they do not have information on the actual impact of the project on beneficiary enterprises and on the context in which they operate.

The second criticality is related and pertains to the **partial, and perhaps inadequate, activity of the Liaison and Control Committee** formed by the institutional actors, both Italian and Tunisian, involved in the project. In practice, the committee, envisaged in the Agreement between the Tunisian and Italian governments, met only intermittently (and not every 6 months), and often on an informal basis, and not with an emphasis on the project in question but looking at the set of projects promoted by Italian Cooperation.

Among the reasons provided by Tunisian government authorities regarding the partial operation of the Committee, the most relevant is without doubt the reasoning that it makes little sense to meet about something that is **working perfectly well**. While it is undeniable that the project worked without any sort of problem or difficulty, this reason does not appear to be fully grounded, since the various actors do not have information on the impact of loans on the Tunisian business world. The question is actually more complex, and refers directly to the first criticality, namely the absence of any monitoring system or system in place gathering information on the impact of the project on the Tunisian economy. It is thus clear that while they cannot be shared, the reasons given by institutional actors are not without foundation, since the Committee is expected meet (obviously if there are no pressing problems) without the information indispensable for reasonable reflections on the actual effects of the project.

A third criticality, already described, is the **relative slowness of some** Tunisian banks in obtaining and sending on documentation needed for approval of the loan. This led to delays in disbursing the resources needed to purchase the relative machinery and equipment. Although some training was given to bank staff on the procedures of the Italian credit line, Tunisian banks sometimes showed a certain lack of in-house organisation in promptly following through application procedures.

Finally, it is necessary to mention a problem that emerged in the final phase of project implementation, when some uncertainties were expressed as to the **actual capacity** of the credit line. This problem appears to be quite understandable in view of the large number of banks involved and the obvious difficulties in centralising information in real time.

In short, the functionality of the mechanism was **generally good**, however some “structural” **criticalities** emerged regarding the project as a whole, namely the lack of monitoring and technical assistance functions in the phase following the disbursement of loans.

**In conclusion:** good functionality of mechanism, but with some criticalities regarding monitoring of the impact of the project.

	Strengths	Weaknesses
<b>Implementing mechanisms</b>	<ul style="list-style-type: none"> <li>- excellent collaboration among institutional actors involved in the project</li> </ul>	<ul style="list-style-type: none"> <li>- no system to monitor effects</li> <li>- partial activity of Liaison and Control Committee</li> <li>- no capitalisation of the experience</li> <li>- organisation sometimes lacking within Tunisian banks</li> </ul>

### 3.3. Lessons learned

As regards lessons to be learned, we can make 7 considerations:

- a. an aid credit project for long-term funding to purchase Italian machinery and equipment works perfectly, as in the case of Tunisia, in a context marked by **stable and well-established relations**, including trade relations, between the two countries;
- b. the project can only succeed with the help of **competent and motivated personnel** which, as in the case of Tunisia, is fundamental especially when managing the launch and start-up phases;

- c. **promotional activities**, as in the case of Tunisia, are **fundamental** for the success of the project; the example of the Tunisia project teaches us that promotional activities can be performed effectively even if resources are thin on the ground;
- d. the **financing of business start-ups** is fundamental for supporting new entrepreneurs and for creating jobs;
- e. a **balanced territorial distribution** of funding all over the country, as in the case of Tunisia, is a crucial factor for the success of the project;
- f. the **involvement of numerous credit institutes** favours the project's nationwide presence and raises the chances of enterprises located outside the capital obtaining credit;
- g. the project must have **efficient archives** capable of ensuring the traceability of all information and all loan application procedures, as was the case in Tunisia.

### 3.4. Recommendations

Thanks to its **excellent results** and adoption of an effective implementing method, the project may be considered as a **veritable "best practice" of Italian cooperation**, and more generally of an international initiative, in terms of credit aid actions in support of SMEs.

The evaluation team has however detected some **aspects that could be improved**; these are the subject of the following recommendations.

- h. **Closer attention should be paid to the logical framework**, which should be considered as a daily tool for planning and implementing the project and monitoring the impact on the context in which one is operating. In particular, greater rigour is required when defining results and indicators, making a distinction between result-based indicators and impact-based indicators.
- i. Closer attention should be paid, with inevitable implications on resource allocation, to **technical assistance functions**, which cannot be confined to the launch and promotion of the project and to the loan approval phase, but should be extended to the post-disbursement phase (at least in an initial period), in order to monitor activities and gather information on impact.
- j. As a result, it would be desirable for the Cooperation Office in Tunis to be involved in **capitalisation activities**, in terms of results, impact and identification of best practices.
- k. It would also be desirable to introduce **forms of checks on conditions applied by banks** in order to single out cases of non-flexibility on particular occasions (political crises or other events that may hamper or even block the economic and productive activity of enterprises) or in any case rigidity as to the overly short duration of the grace period.
- l. Finally, **steering and guidance bodies should be fully operational**, with regard to the various questions of implementation and to the monitoring of impact on the social and economic context in which the project operates.

## 4. THE PROJECT IN THE PALESTINIAN TERRITORIES

### 4.1. Project presentation

#### 4.1.1. The institutional framework

The project “*credit line to support small and medium sized businesses through the Palestinian Private Banking system*” has followed a development parallel to the changes that the project has undergone over the years. While the activities should have started in 2004, the project **actually only began in 2010** after a series of delays related to political problems affecting the Occupied Palestinian Territories.

Furthermore, in 2011 the **eligibility criteria** for loans and other conditions were redefined; being too restrictive, they ensured the issue of only a small part of the funds allocated for the credit line.

The project, financed by the Ministry of the Economy and Finance upon proposal by the DGCS of the Italian Ministry of Foreign Affairs, originated from the agreement signed in Ramallah on 22 July 2004 between the Italian Ministry of Foreign Affairs (MAE-DGCS) and the Palestinian National Authority (PNA), represented by the Ministry of Finance (MoF).

The general goal of the project was to **sustain the economic development and improve the living conditions** of the Palestinian population by granting soft loans to small and medium sized businesses (SMEs) in the private sector, in order to stimulate job creation and favour economic growth.

The programme agreement involved the issue of **credit financing** of 25,000,000 € in three instalments, the first one of 9,000,000 € and the other two of 8,000,000 € each.

The project has a total cost of 25,422,250 €, of which:

- a. 25,000,000 € allocated as a soft loan to be used to set up a credit line in favour of the Palestinian SMEs;
- b. 422,250 € paid out to a Concession Fund, of which 249,000 € is earmarked for the setting up of a local liaison office, and 173,250 € earmarked for technical assistance, monitoring and supervision of the project.

The soft loan has been granted at an annual interest rate of 0.00%, the repayment period is 38 years and the grace period is 18 years, during which only the interest is due.

On 15 May 2005, the Financial Agreement was signed between MoF and Artigiancassa for governing the payment of the single loan instalments. The role assigned to Artigiancassa is to stipulate and manage the contracts with the Italian enterprises providing goods, services and machinery, since the Palestinian enterprises had to use 70% of the funding to purchase Italian machinery and technology. The Agreement would come into force only after:

- the opening of the special account of the MoF at the project Agent Bank (Arab Bank);
- the setting up of the PMU appointed to implement the project;
- the selection of the company appointed to audit the credit line.

In the period between January 2006 and July 2007 the project was interrupted due to **political instability**. After the resumption of the activities, the auditing firm was not selected until July 2009 (Pricewaterhouse & Cooper). In December 2009, the first instalment of the credit line, totalling 9,000,000 €, was credited to the Arab Bank.

In June 2010 the On Lending Agreement was signed with the four commercial banks participating in the project, and containing the procedures for accessing and paying out the loan amount. **In October 2010 the credit line became fully operational.**

In 2011 a process started for the **revision of the agreements**, aimed at redefining some problematic issues and some drawbacks of the project. Since September 2011, in fact, in order to improve the effectiveness and efficiency of the project, the UTL (together with the expert on location Dr. Fulvio Capurso) and the MoF have

identified some **amendment proposals** which the Palestinian Ministry has formalised in the form of a general request for revision in letter no. 2515 received on 17 October 2011 at the Italian General Consulate in Jerusalem.

The request for revision was then analysed by the MAE/DGCS which worked on the acceptance of these changes in the form of amendments to the programme agreement. The process was completed in July 2012 with the drawing up of an **amendment proposal** to the programme agreement, sent by the General Consulate to the MoF (27 July 2012) and with the subsequent reply by the MoF dated 14 August 2012.

At the same time, the MAE/DGCS started up the procedure for assigning a long transfer mission to an expert in the development of small and medium sized businesses, in order to provide support to the MoF in managing the project. The selection concluded with the resolution by the Management Committee (n° 71 of 8 June 2012) appointing Dr. Fulvio Capurso for this task.

By April 2013 **only three enterprises** had received funding from two of the four banks involved in project for a total of 930,000 €.

#### 4.1.2. *The objectives, methodological approach and planned activities*

##### **The objectives and expected results**

The general aim of the project is to **contribute to the improvement of the economic and living conditions of the Palestinian population by creating employment** and generating economic growth and income in the Occupied Palestinian Territories (West Bank and Gaza). In this context, the Programme Proposal is aimed at supporting Palestinian SMEs to enable them to **maintain the production level** threatened by the political, institutional and economic crisis.

The **objectives of the project** according to the Logical Framework of the project are summarized in the following table:

Table 13: *The objectives of the project in Palestine*

OBJECTIVES	DESCRIPTION	EVALUATION INDICATORS
General objectives	Supporting the economy and living conditions of the Palestinian population	
	Generating economic growth and income in the Palestinian economy	
Specific objectives	Maintaining and reviving the Palestinian SMEs to overcome the crisis	-Number of SMEs financed -Increase in SME turnover -Number of jobs created

Source: *Logical Framework of the project*

Furthermore, the Logical Framework includes **three expected results**, defined as:

- Improvement of access to local and foreign technology markets;
- Allowing further specialisation of the Palestinian Private Banks (PPB) in medium term lending procedures;
- Increasing the availability of capital for loans to enterprises and favouring the increase of medium term bank loans.

##### **Methodology of implementation and activities planned**

According to the project document, the activities planned to achieve these objectives are as follows.

- Gift of 249,000.00 € to be used to start up a Local Liaison Office at the Italian Cooperation Office in Jerusalem, in order to coordinate the project with the other initiatives planned and financed by the Italian Government. The gift was to have been paid out and managed as a "Local Fund" by the Italian General Consulate in Jerusalem through the local Cooperation Office.
- Gift of 173,250.00 € for Technical Assistance, provided by Italian experts directly selected by MAE-DGCS, to support the PMU at the International Relations Department of the MoF during the start-up and monitoring phases.

- Soft loan of 25,000,000.00 € to be used for the credit line to be made available for the PPBs eligible for the granting of loans to the SMEs. The PPBs were to receive the soft loan on the basis of the single projects presented by the SMEs and according to the eligibility criteria set forth in the programme agreement. The PPBs were to have undertaken the credit risk. The Agreement stated that the MoF was covered against the risk of non-utilisation or poor allocation of the funds by the PPB.
- During the start-up phase, the credit line was to have also been used for the Technical Assistance Programme in order to create a specialised service for medium term loans, at the PBC- Palestinian Banking Corporation, and in every other eligible PPB, for amounts over 200,000 €.
- The MoF was to have chosen a specialised Italian company (or an Italian expert) to supply the Technical Assistance according to specific Reference Terms, formulated by the PPBs and PBC, and agreed with the MoF and the MAE-DGCS. The company (or expert) was to have been chosen by the MoF according to the procedures set forth in the programme agreement.
- If a PPB had asked to participate and operate in this credit line, the phases and procedure to follow would have been the same.
- According to the Programme, the credit line was to have been paid out in three anticipated instalments to be managed as a Revolving Fund.
- In order to apply internationally recognised auditing criteria, the MoF was to identify a primary auditing firm with international experience, appointed to check the regularity and the compliance of all the procedures and transactions set forth in the programme agreement.
- The selection was to follow specific Reference Terms, formulated by the MoF and agreed with the MAE-DGCS. The Company was later appointed by the MoF according to the procedures set forth in the programme agreement.
- The auditing contract was funded through a soft loan exempt from tax/VAT.

#### 4.1.3. The budget of the project

The project had the following budget.

- a) Gift of 249,000.00 € to be used for the creation of a Local Liaison Office in the Italian Cooperation Office at the Italian General Consulate in Jerusalem.
- b) Gift of 173,250.00 € for Technical Assistance, provided by Italian experts directly chosen by MAE-DGCS, to support the PMU during start-up and monitoring phases.
- c) Soft loan of 25,000,000.00 € to be used for the credit line made available to the eligible PPBs and PBC for the granting of loans to the Palestinian SMEs.

In order to ensure rapid and flexible procedures for funding the SMEs, a special fund was to have been set up at the **Agent Bank** (i.e. Arab Bank). The credit line was to have been paid out in **three instalments**, each complying with fair territorial distribution. The gift was to have been paid out according to the procedures and regulations contained in Italian Law N° 49/87. The aim of this procedure was to ensure the maximum decision-making powers to the Palestinian National Authority (PNA) and to favour local administration and coordination of the project. The following table shows the basic data on the financial resources available to the project.

Table 14: Composition of the project budget

Task	Description	Grant (€)	Soft loan (€)	Local Government (€)	Total (€)
Local Liaison Office at the Italian Cooperation Office in Jerusalem	Local funds	249.000,00			249.000,00
Technical assistance services for the first tranche of the Credit Line	Service Contract between the PBC and each PDB eligible with an Italian company specialized		200.000,00		200.000,00

Task	Description	Grant (€)	Soft loan (€)	Local Government (€)	Total (€)
Credit Line for SMEs	Medium-term credits		24.445.625,00		24.445.625,00
Auditing	Contract between the MoF and an international Auditing firm		354.375,00		354.375,00
Technical assistance for the start-up and monitoring	Italian experts recruited directly from MAE-DGCS	173.250,00			173.250,00
<b>Total</b>		<b>422.250,00</b>	<b>25.000.000,00</b>		<b>25.422.250,00</b>

Source: Programme Document

The agreement involved **special safety clauses** ensuring that the MoF would reimburse to MAE-DGCS all costs not considered correct by the latter and by the IFIT, even with a positive assessment by the auditor.

#### 4.1.4. The instrument and mechanisms for implementation of the project

The mechanisms for implementation have proved to be **very slow and inefficient**. Changes in the mechanisms for implementation have thus been proposed in the request for revision contained in the letter of 17 October 2011. The aim was to:

- make the mechanisms for implementation faster and more efficient in order to reduce the time between the loan application by the SMEs and the paying out of the funds by the Bank, thus making the credit line more competitive and improving the offer with respect to other competitors;
- make the credit line more attractive to the Palestinian SMEs, thus extending the number of participating enterprises.

The two mechanisms of the procedure are compared below:

Table 15: Comparison of the two procedures

Original procedure	New procedure proposed
<b>Procedure for application, assessment, approval and paying out of single investment projects from funds of the credit line (according to the 2004 agreement).</b>	<b>Procedure for application, assessment, approval and paying out of single investment projects from funds of the credit line (according to the changes contained in the letter requesting revision of 17 October 2011).</b>
<ol style="list-style-type: none"> <li>Application for access to borrowing by a SME to one of the banks participating in the project;</li> <li>Assessment of the investment project by the internal department of the bank with regard to compliance with the eligibility criteria and economic/financial assessment;</li> <li>Approval by the participating bank;</li> <li>Notification of approval of the project by the bank to the PMU and request for approval by the MoF/CLSC;</li> <li>Assessment of the investment project by the PMU with the support of the auditing firm;</li> <li>Approval of the investment project by the CLSC;</li> <li>Signature of the Subsidiary Loan Agreement between the bank and the beneficiary SME;</li> <li>Signature of the Sub-loan Agreement between the MoF and the bank;</li> <li>Total or partial paying out of the funds for the</li> </ol>	<ol style="list-style-type: none"> <li>Application for access to borrowing by a SME one of the banks participating in the project;</li> <li>Assessment of the investment project by the bank with regard to compliance with the eligibility criteria and economic/financial assessment;</li> <li>Approval by the participating bank and signature of the Loan Contract;</li> <li>Notification of approval of the investment project together with the request for paying out the funds for the PMU/MoF through the Project Sub-loan Agreement;</li> <li>Paying out of the funds by the MoF to the bank, within 7 days from the application;</li> <li>Subsequent monitoring of the PMU on compliance with eligibility criteria for the single loan paid out;</li> <li>Sending by the bank to the MoF of the Acknowledgement of Indebtedness;</li> </ol>



Original procedure	New procedure proposed
approved investment project, by the MoF to the requesting bank; 10. Sending by the bank to the MoF of the Acknowledgement of Indebtedness; 11. Audit by Pricewaterhouse and Cooper	8. Financial audit.

Source: Rapporto Capurso 2011

The implementation of the project is based on the paying out of funds by the Banks to the beneficiary enterprises. The two implementation mechanisms are shown in the following chart:

Figure 49: The original mechanism of project implementation

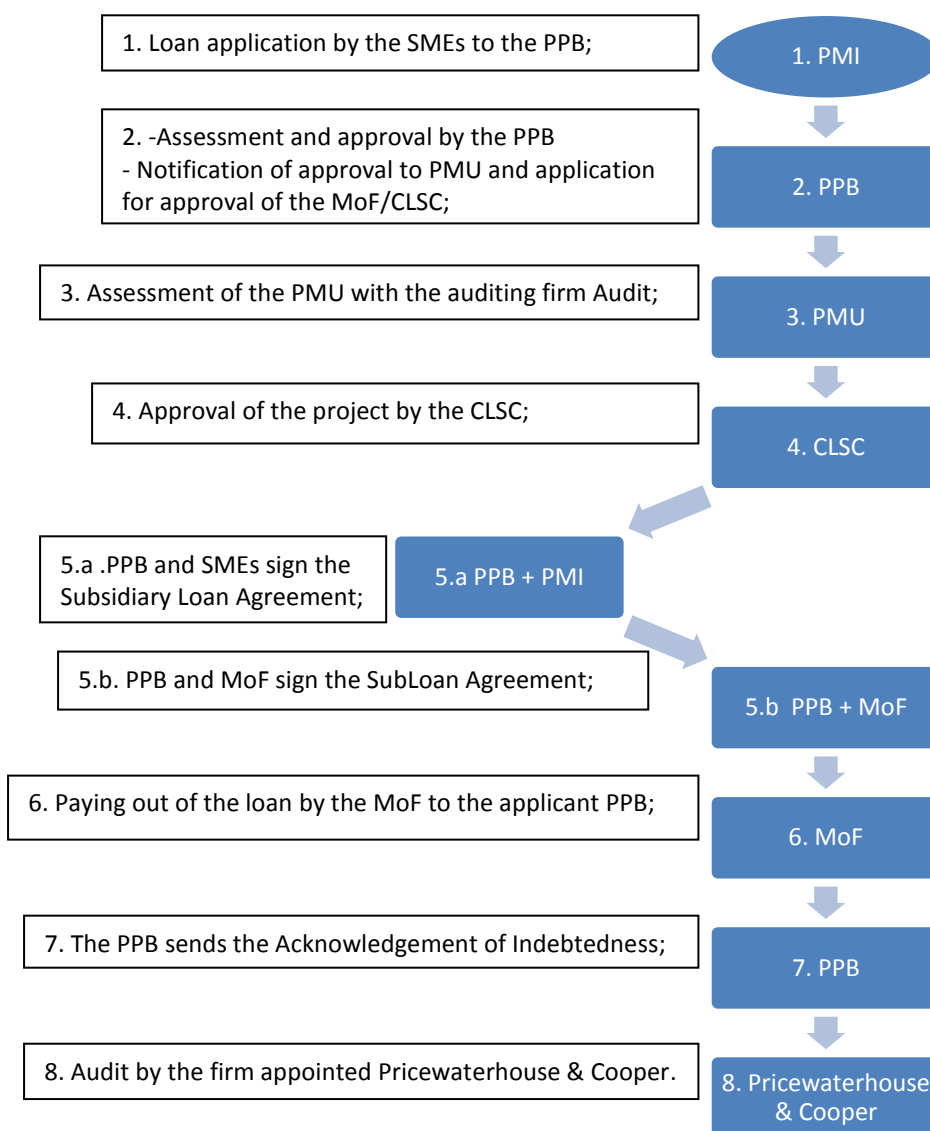
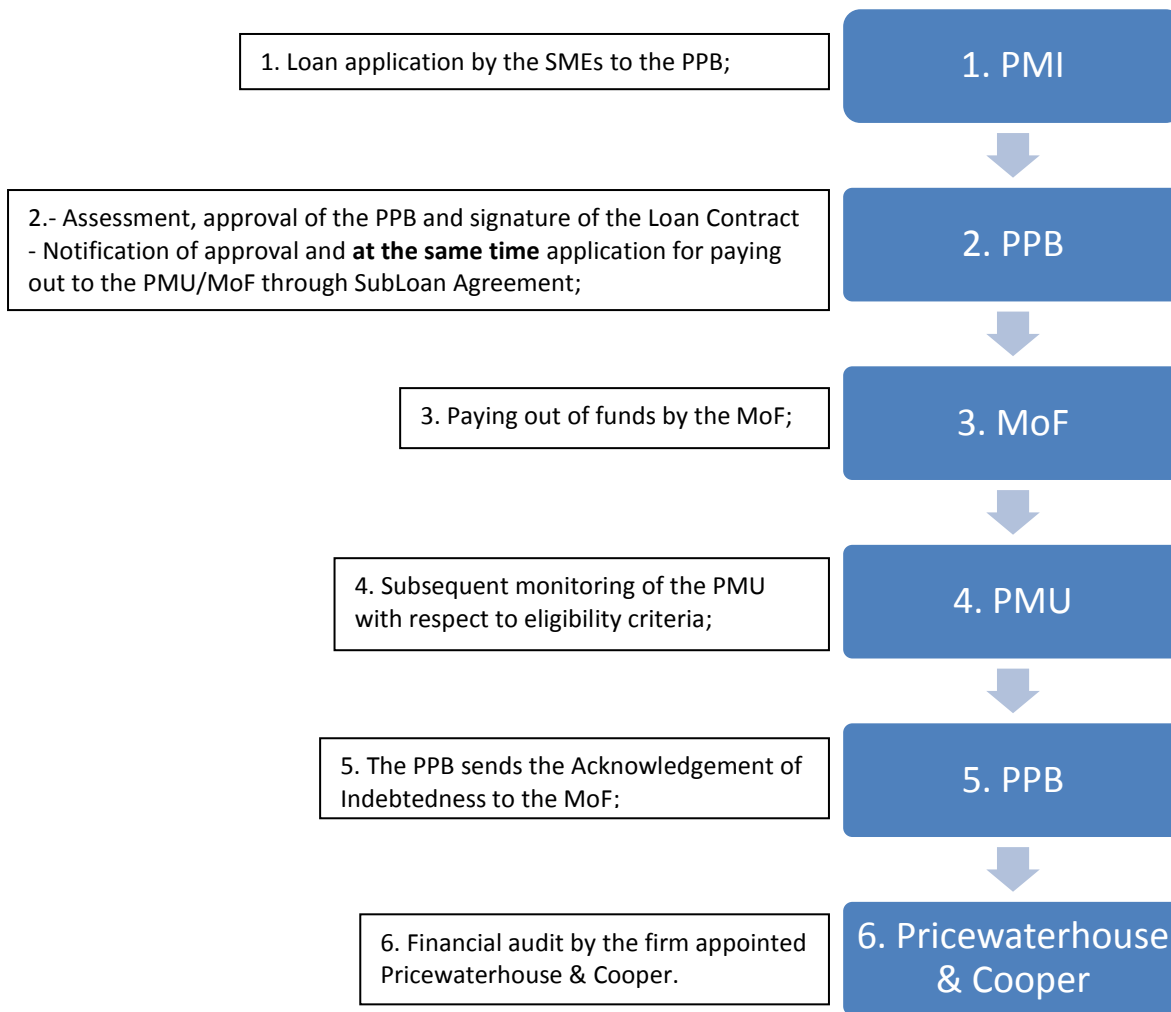


Figure 50: The new implementation procedure of the project



From the above charts we can see that the new mechanisms for implementation proposed have been made **faster and less bureaucratic** thanks to the change of the MoF assessment activity **from anticipated to subsequent**, with considerable time savings.

#### 4.1.5. The history of the project

Considering the complex history of the project and its substantial change over the years, we believe that the **main phases** of this history should be reviewed.

#### Identification and formulation of the project

The project should be seen in the broader **context of the relations between Italy and the Palestinian National Authority** which, starting from 1997, have signed an Agreement involving the allocation by the Italian Government of 60,000,000 Euro to fund development cooperation initiatives and activities in order to increase trade between the two countries, and to strengthen the integration of Palestine in world markets. Among the initiatives financed, there is the credit line totalling 25,000,000 Euro started up in 2004, which is discussed in the present assessment.

The decision to start up the credit line is connected with **two main factors**:

- a. The Israeli military occupation, which had as its main effect a serious economic and social crisis. In this regard, it is estimated that in 2002 the damage caused by the occupation to infrastructures and the restrictions on the circulation of persons and goods totalled USD 1 billion;

- b. The lack of liquidity in the treasuries of the Palestinian banks and difficulties in access to credit by the local SMEs.

These factors were an **obstacle for the development of the Palestinian SMEs**, which were also characterised by a significant tendency to prefer **informal credit networks**; the Palestinian credit market was, in fact characterised by the dissemination of deeply rooted informal institutions inducing economic protagonists to act in credit networks and systems other than the commercial banks, and often also than the Islamic banks.

With regard to the formulation and identification of the project, these operations took place in 2000. In such period the Palestinian banking system showed **serious organisational and structural drawbacks** and was not fully able to support the development of the local private sector. Ten years later the situation **changed radically**, with the presence on the market of **18 commercial banks** that are duly registered and supervised by the Palestinian Monetary Authority (PMA).

The approval of the Project Document for the credit line took place on 29 March 2004, by the Italian Management Committee with resolution no. 9.

### **The implementation phase of the project**

The implementation phase is marked by the following stages.

- a. The project was approved by the Management Committee on 29 March 2004 with resolution No. 9.
- b. The programme agreement between the Ministry of Foreign Affairs (MAE/DGCS) and the Palestinian National Authority represented by the MoF was signed on 22 July 2004. The agreement provides for the paying out of the credit amount in three instalments, with the first one being 9 million Euro and 8 million Euro for the other two.
- c. The Financial Agreement between the MoF and Artigiancassa was signed on 15 May 2005; this agreement governs the paying out of the single instalments. The Agreement was to have become operational following:
  - the opening of the special account of the MoF at the project Agent Bank (Arab Bank), and after the selection of the auditing firm;
  - the setting up of the PMU (Project Management Unit) for project management;
  - the selection of an international auditing firm.
- d. In January 2006, given the unstable political conditions in the Palestinian Territories, the project was temporarily suspended.
- e. The project was re-started in July 2007.
- f. In July 2009 the selection procedure for the auditing firm was completed, with the assignment of the appointment to Pricewaterhouse & Cooper. The Agreement therefore came into force.
- g. Following the signature of the contract for the auditing services, the first instalment of the loan (9 million Euro) was credited in December 2009 at the project Agent Bank.
- h. During the first half of 2010, the agreement was made with the Palestinian commercial banks (On Lending Agreement) thus governing the procedures for access to and paying out of the credit line. The drawing up of the On Lending Agreement was completed in June 2010 and the agreements with the four banks participating in the project were then signed. In this period the gift funds ran out, and the PMU continued its activities with direct funding by the Palestinian Authority.
- i. The credit line thus became fully operative in October 2010, once the project Operating Manual had been completed and distributed to the banks participating in the project.
- j. Starting from September 2011, in order to improve the effectiveness and efficiency of the project, the UTL (together with the expert working on site Dr. Fulvio Capurso) and the MoF identified some proposed changes submitted by the Ministry, in the form of a general request for revision, in letter no. 2515 received on 17 October 2011 at the Italian General Consulate in Jerusalem.
- k. The request for revision was then analysed by MAE/DGCS which worked on the acceptance of these changes in the form of amendments to the programme agreement. The process was completed in July 2012 with the

preparation of draft amendment to the programme agreement, sent by the General Consulate to the MoF (27 July 2012) and with the subsequent reply by the MoF on 14 August 2012.

- i. At the same time, MAE/DGCS started the procedure for assigning an expert in the development of small and medium size businesses on a long term mission to provide support to the MoF in managing the project. The selection was completed with the resolution of the Management Committee (no. 71 of 8 June 2012) with Dr. Fulvio Capurso being appointed for this task.

Once the project started, from October 2010 up to now **three loans** have been paid out by two of the participating banks for a **total amount of 930,000.00 Euro**:

*Table 16: The historical stages of the credit line*

N° ACTIVITY	DATE	ACTIVITY
1	29 March 2004	Approval of the credit line by the Italian Management Committee with resolution No. 9
2	22 July 2004	Programme agreement between the MoF and MAE/DGCS
3	15 May 2005	Signature of the Financial Agreement
4	January 2006	Suspension for political instability
5	July 2007	End of suspension: resumption of work
6	July 2009	-End of selection procedure for the international auditing firm -Financial Agreement comes into force
7	December 2009	Paying out of the first instalment of the loan
8	January 2010-October 2010	-Drawing up of the agreement with the commercial banks (On Lending Agreement) completed in June 2010 -Signature of agreements with the 4 commercial banks
9	October 2010	The credit line becomes fully operative
10	From 17 October 2011	Process of revising the credit line

#### The revision phase of the project

In September 2012, since the credit line was not being used, a **redefinition of the terms of implementation** was proposed. The proposal was approved by the Management Committee-CLSC and is currently awaiting final approval to become operative.

The proposal involved the following activities.

- a. Include a gift amount to provide the enterprises with access to Technical Assistance by local consultancy firms, to help them develop projects, identify the appropriate technologies, prepare the applications to the banks with encoding of documents and the budget in order to reduce transaction costs. This gift should cover 75% of the consultancy costs.
- b. Allow lending in a range between 10,000 € and 50,000 €. With this lending, the purchase of Italian technology and goods would not be binding, and the amounts could also be used to finance the costs of managing the enterprise.
- c. Reduce the percentage of large size loans (50,000-500,000) to be used the purchase of Italian goods and technology from 70% to 60%.
- d. Launch a communication campaign to the enterprises in the main sectors (for example the ones that could be interested in purchasing Italian technology: marble production, agro-food etc.), also involving the Chamber of Commerce and the farming Cooperatives and Organisations (this campaign will be set up by using the interest accrued from the deposit of the project funds since 2004). The communication campaign will also be addressed to bank employees (who currently have no information on the Italian credit line) and the enterprises (the few that are aware of the credit line have a negative opinion about it because of having to wait for years for the start-up).
- e. Open the use of the credit line ad other banks, including the Islamic banks (which seem to play an important role in the funding of investments).

- f. Create a guarantee fund to partially cover the risk of the banks and to reduce the collateral security requirement of the borrowers (the guarantee fund with one of the two guarantee funds currently existing in Palestine: one with the Palestinian Investment Fund and the other with the EPCGF).
- g. The creation of a Technical Assistance Unit set up by the Italian cooperation organisation, and currently awaiting MAE approval.

Ulteriori elementi sono attualmente in fase di istruzione, come la creazione di consorzi (quale l'italiano "Confidi") coinvolgendo le Camere di Commercio.

Nella seguente tabella è riportata una comparazione tra le condizioni previste nell'Accordo del 2004 e quelle del 2012, che permette di cogliere facilmente le principali modifiche proposte.

Table 17: The original conditions and the new conditions of the project

Conditions stated in the programme agreement (22 July 2004)	New conditions agreed with the MoF (Letter MoF - 17 October 2011)
Eligibility criteria	Eligibility criteria
<p><b>a) Eligibility for SMEs:</b></p> <ul style="list-style-type: none"> <li>• Private capital: at least 65%</li> <li>• At least 40% Palestinian private capital</li> <li>• Registration with the Tax Authority</li> <li>• Active in the following sectors: manufacturing, agro-food and related services</li> <li>• Credit worthiness of the company provable with at least two years of experience in the sector for which the loan is requested</li> <li>• Debt/capital ratio not exceeding 3/1</li> <li>• Cost of debt servicing not less than 1.25</li> <li>• Sufficient working capital to meet contract requirements</li> <li>• Company manage has no sentences for and/or has not committed serious offences</li> <li>• Presence of adequate guarantees to support the loan</li> <li>• The entrepreneur making the application must own a significant percentage of capital in the enterprise and be able to independently fund at least 25% of the investment project.</li> </ul>	<p><b>a) Eligibility for SMEs (on the basis of the classification issued by the Council of Ministers of the Palestinian Authority):</b></p> <ul style="list-style-type: none"> <li>• Number of employees: not exceeding 19 persons</li> <li>• Annual sales: not exceeding 500,000.00 USD</li> <li>• Registered capital: not exceeding 100,000.00 USD</li> <li>• Private capital: at least 65%</li> <li>• At least 40% of Palestinian private capital</li> <li>• Registration with the Tax Authority</li> <li>• Sectors: Industry, manufacturing, food and agro-food, services</li> <li>• Respect of current legislation on child labour</li> </ul>
<p><b>b) Eligibility of projects:</b></p> <ul style="list-style-type: none"> <li>• The loans must be between 50,000.00 and 500,000.00 Euro</li> <li>• Projects for new investment, modernisation, restructuring and acquisition (pro quota) of working capital are allowed</li> <li>• Presentation of: business plan, financial statements, company income returns and cash flows.</li> <li>• FIRR at least 15%</li> <li>• Respect of the guidelines on the environment established by the PMU</li> <li>• Funding of goods and services of Italian origin, with the possible use of a maximum of 30% for local spending, with the contracts being linked with contracts with Italian suppliers</li> </ul>	<p><b>b) Eligibility of projects:</b></p> <ul style="list-style-type: none"> <li>• The loans requested must be between: 50,000.00 and 500,000.00 Euro</li> <li>• Funding of goods and services of Italian origin (at least 60% of the loan requested). A maximum of 40% of the loan can be used to cover local expenses or purchases from countries in the Area, not linked with contracts with Italian suppliers - <b>alternatively</b> the proposal is for 30% allowed for local expenses (not linked with contracts with Italian suppliers) for the entire amount credit programme and not single investment projects.</li> <li>• Projects for new investment (start-up), modernisation and restructuring are allowed. The acquisition of working capital is allowed up to of maximum of 30% of the total amount of the investment</li> <li>• Presentation of business plans with respect to the investment project for which the loan is requested</li> <li>• Respect of the guidelines on the environment established by the PMU</li> </ul>

Conditions stated in the programme agreement (22 July 2004)	New conditions agreed with the MoF (Letter MoF - 17 October 2011)
	<ul style="list-style-type: none"> <li>• No direct or indirect link with military activities and/or the production or the sale of weapons</li> <li>• No direct or indirect link with other production sectors prohibited by National and EU legislation.</li> <li>• <b>Major Projects:</b> Investment projects providing for loans exceeding the general limit of 500,000.00 Euro. The eligibility of Major Projects is subordinated to compliance with all the following criteria:</li> <li>• <b>Socio-economic impact</b> (at least 1 of the following sub-criteria): <ul style="list-style-type: none"> <li>a) Generating new employment</li> <li>b) Promoting the use of environmentally compatible technology</li> <li>c) Introducing process and/or product innovation through the transfer of know-how and technology</li> <li>d) Supporting investment in production sectors that are strategic and of national interest.</li> </ul> </li> <li>• <b>For every single instalment of the credit line up to a maximum of 3 Major Projects can be funded.</b></li> <li>• <b>For every single tranche of the credit line to a maximum of 2 million Euro can be allocated for funding Major Projects.</b></li> <li>• <b>No SME receiving a loan for a Major Project may receive subsequent access to the credit line</b></li> </ul>

Source: *Rapporto di Missione Fulvio Capurso (19 Settembre-22 Ottobre 2011); Tabella delle modifiche tecniche proposte*

The aim of the changes proposed is to achieve **more favourable borrowing conditions** through the definition of **more flexible eligibility criteria**.

The outline by Fulvio Capurso also contains the amendments of the mechanisms and procedures for application, assessment, approval and paying out of the single investment projects using funds of the credit line; this part was shown in paragraph 4.2.8 dedicated to the mechanisms for implementing the project.

#### 4.1.6. *The activities actually undertaken by the project*

Paradoxically, the project, while having completed almost all the activities provided for in the Logical Framework, has not yet achieved hardly **any results**, since the credit line was used by three enterprises for a small total amount with respect to the funding of the project. Naturally, the paradoxical aspect is related to a **poorly conceived Logical Framework** which focuses on **secondary and supporting activities** with respect to the main activity, which is to issue loans to Palestinian SMEs. For complete information, the following table shows the status of the activities stated in the Logical Framework and those effectively implemented.

Table 18: *The activities planned and those effectively implemented*

ACTIVITIES PLANNED	ACTUAL ACTIVITIES	
	YES	NO
1) Creation of a Local Liaison Office at the Italian Cooperation Office in Jerusalem to connect the project with other measures in which the Italian Government is involved.	YES	
2) Strengthening of the specialisation of PPBs and creation of a Operational Manual.	YES	
3) Loan Contract between the MoF and the PPBs. The credit line will be based on a Revolving Funds scheme.	YES	
3.a) Guarantee Plan to share collateral risks (if possible).		NO
3.b) Opening of the credit line to participation by additional donors.		NO

ACTIVITIES PLANNED	ACTUAL ACTIVITIES	
4.1) Creation of the Credit Line Steering Committee (CLSC).	YES	
4.2) Creation of the PMU at the MoF.	YES	
4.3) Auditing.	YES	
4.4) Short missions by Italian experts per the start-up and monitoring of the activities.	YES	

Source: Logical Framework of the Project

The following three activities, representing the core of the project, are **almost completely absent**.

- Involving the Banks: currently 4 commercial banks out of the 18 operating in Palestinian territory have been involved. The total of loan transactions is three, made by 2 of the 4 participating banks.
- Involving the SMEs: currently, only 3 SMEs have benefitted from the credit line.
- Advertising and promotional activity: necessary for the greater involvement of the protagonists. While up to now the project has not managed to attract the Palestinian SMEs, some of the responsibility for this lack of success lies with the low level of promotional activity conducted.

#### Results expected and indicators

The project should have achieved a **combination of results** with an impact on the SMEs in terms of improvement of their technical, marketing and management skills, as well as a greater availability of funds for specialised medium term loans and the availability of Direct Foreign Investments (DFI). These results should have favoured the growth of local SMEs.

The **expected results** of the project can be summarised as follows.

- For the SMEs: better access to information on domestic and foreign markets; an improvement of management capability; a higher product quality (through better technology); increased international relations with the international business associations. These results should have produced an increase in sales and opportunities to place new products on the market.
- Increase in the availability of medium-long term capital and the availability of direct foreign investments.

The indicators for monitoring the project were to have been based on:

- the number of enterprises which, having benefitted from the project services (through the Special Unit), invest in the reorganisation of their administrative and management systems in order to improve their performance;
- the number of SMEs requesting the certification of products for access to the foreign market, or to improve their domestic market quotas;
- the number of SMEs that have requested services to support their loan application to the private banks;
- the number of loans granted by the Private Palestinian Banks (PPBs) under the project, measured together with their risk level in the medium-long term.

These indicators should have been checked periodically according to a plan drawn up together with the Palestinian parties during the project start-up phase, and the monitoring activities should have started from the first year when the credit line came into operation.

To sum up, the expected results can be shown in the following table:

Table 19: The expected results of the project

The expected results	
1	Improve access to local and foreign technology markets
2	Greater specialisation of the Private Palestinian Banks in medium term credit procedures
3	Increased availability of capital for loans to enterprises and increase in medium term bank loans

Source: Logical Framework of the Project

## The actual results

The actual results of the project are largely below the expected level, since the credit line, for various reasons to be analysed in the following paragraphs, was **virtually unused**. In particular, from the start-up of the project in October 2010 up to April 2013, only three businesses have obtained a loan on the basis of the credit line services, for a total amount paid out of 930,000.00 €.

As for the three SMEs benefitting from the project, and located in two governorates, they work in three distinct sectors: agro-food, pharmaceuticals and stone quarrying and processing. Apart from the obvious difference, the 3 businesses have some aspects in common:

- no loan has been used for funding an enterprise creation project;
- they heard about the credit line through personal relations (which can be considered as indicating the inadequacy of promotional activity).

The following table shows the basic data for the only three beneficiary enterprises of the project.

Table 20: The beneficiary enterprises

The beneficiary enterprises						
Firm	Sector	Place	Bank	Loan	Use	Benefit
Pharma Care Company	Chemical – Pharmaceutical	Betunia (Ramallah)	Al-Quds Bank	500.000,00€ for 4 years – 1 year grace	- Labelling machines - Air conditioning plant - Production machines	Increase in profits (not quantifiable) Creation of new posts for using machines (not quantified)
Al-Badyeh Stone Company	Stone materials	Hebron	Bank of Palestine	90.000,00 €	- Stone cutting machine (substituting the rental of a similar machine, costing to the firm about 1.000 NIS per day (about 214 €))	20 % increase of income and production
Salam Investment Group	Agrifood	Hebron	Bank of Palestine	380.000,00€	Fruit and vegetable freezer	30% increase of profits and production

Also the number of banks involved seems **rather low**: only four banks out of the 18 operating in Palestine have been involved in the project and of these none belong to the category of Islamic bank.

### 4.1.7. The actors effectively involved

The protagonists involved in the project can be summarised in the following table.

Table 21: Actors involved in the project

The actors of the project		
Actors		Role
1	MAE-DGCS (Italian Ministry of Foreign Affairs – General Directorate for Aid and Development)	Signing the agreement for the Italian Government; overseeing & monitoring the projects through the UTC and UTL; funds disbursement
2	MoF- Palestinian Ministry of Finance	Signing the agreement on behalf of Palestinian



The actors of the project		
	Actors	Role
		Government; creation of the PMU and the CLSC
3	UTC	Overseeing and monitoring the project
4	UTL in Jerusalem	Overseeing and monitoring the project
5	PMU-Project Management Unit (within the MoF - Department for international relations)	Project implementation
6	CLSC-Credit Line Steering Committee	Management committee of the credit line
7	IFIT-Italian Financial Institution	Soft Loans management on behalf of the Italian MoF
8	Pricewaterhouse & Cooper	Auditing
9	Arab Bank	Agent Bank
10	PBC-Palestinian Banking Corporation	Establishing the credit fund on behalf of the Palestinian MoF
11	PPB (Private Palestinian Banks)	Funding disbursement to SME (designed by Palestinian MoF)
11.a	Bank of Palestine	
11.b	Palestinian Commercial Bank	
11.c	National Bank (Al Rafah bank)	
11.d	Al Quds-Bank	
12	SMEI	Beneficiaries; accessing the credit line through contracts with Banks
12.a	Albayah	
12.b	Al-Salam Group	
12.c	Pharma Care	
13	ArtigianCassa	Contract Management with Italian suppliers of goods and services
14	Italian Firms, service and goods production	Supply of machinery, services and other goods

## 4.2. The results of assessment

Since the project actually started up very late, and since **a very small part of the resources** allocated to the credit line have been used at the time of the evaluation (more precisely 3.6%), the sense of this assessment is to face the analysis dynamically, thus taking into account the substantial changes being defined.

### 4.2.1. Relevance/Pertinence

The project **does not have significant relevance** with respect to the context of the measures, for a number of reasons related above all to the time elapsed between the signature of the agreement (signed in 2004) and the actual start-up of the project (October 2010).

It should be pointed out that in 2004, the project, though being more relevant compared to 2010 (start-up year) in any case had little pertinence with respect to the context of the measures. This is why numerous changes have been made to the project. However, although these have increased its relevance, they have not managed to solve the basic problem: while in 2004 there was a lack of capital deposited in the Palestinian banks, in 2010 there was an **excess of capital** deposited.

The situation of the credit market has thus **drastically changed**: while between 2000 and 2004 there was effectively a lack of liquidity deposited at the banks, currently the problem is that while there is an enormous availability of liquidity, there is a low rate of loans requested and granted. According to the EPCGF there are 8 billion dollars deposited in the Palestinian banks, of which only 2 billion utilised in business investments while the other 6 are unused. The Bank of Palestine alone currently has 500 million dollars in the form of deposits that are not utilised. Since the aim of the credit line was to inject liquidity into a banking system characterised by the low availability of capital, a change in this situation could mean that the entire project will **not be very pertinent**.

As the mission has verified in the field through interviews and contacts with the banks, there is also a low propensity by Palestinian banks to grant loans for business investments, as shown by the EPCGF statistics. This attitude on the part of the banks is partly due to the fact that businesses find it hard to provide **adequate collateral security**, and partly to the **high level of informality in the Palestinian economy** which is also very

rooted in the credit market, where the most of the enterprises utilise typically informal forms of credit such as loans from friends and relatives, the “tontine” system and systems for loans directly between enterprises.

The Palestinian economy is not, in fact, characterised by a low rate of enterprise; however, the situation in which the businesses work is characterised by a **low level of formality** in the institutions. This context means that banks need to be better rooted, with the development of a new approach designed to involve the protagonists who are often not considered in these types of measures, such as new enterprises and informal enterprises (not understood merely as meaning family-based microenterprises organised according on a household economy basis and which often provide forms of business development).

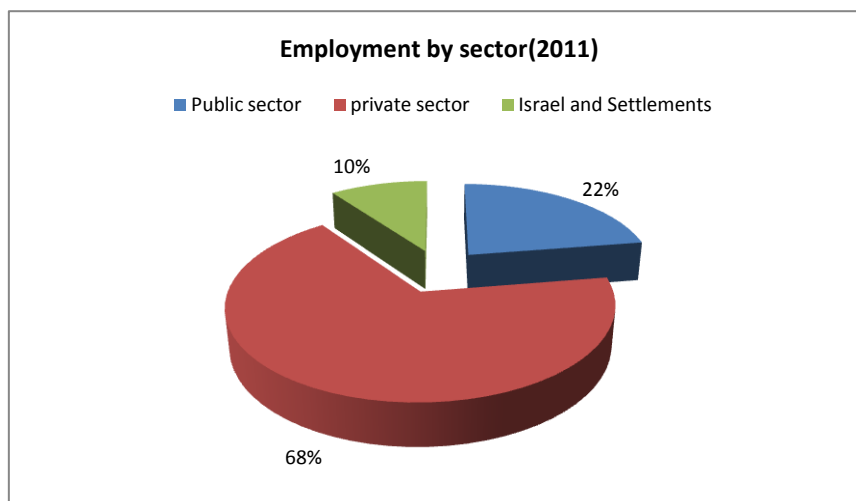
The excess liquidity in the banking system and the highly informal character of Palestinian enterprise are thus two **initial conditions** that have compromised not only the possibilities for the project to succeed in when it came into operation, though with a delay, but also the interest on the part of the main protagonists, i.e. the banks and small and medium sized businesses.

On the basis of these points, it would be useful to analyse the aspects which have a positive relevance to the project and the ones having low relevance, taking into account the Palestinian context.

#### Positive factors

The main positive factor regarding the pertinence of the project is the priority assigned by the Palestinian Government to the **development of the private sector and SMEs**. The private sector has, in fact, a fundamental role for employment since, as shown in the following chart, it accounts for 68% of total employment.

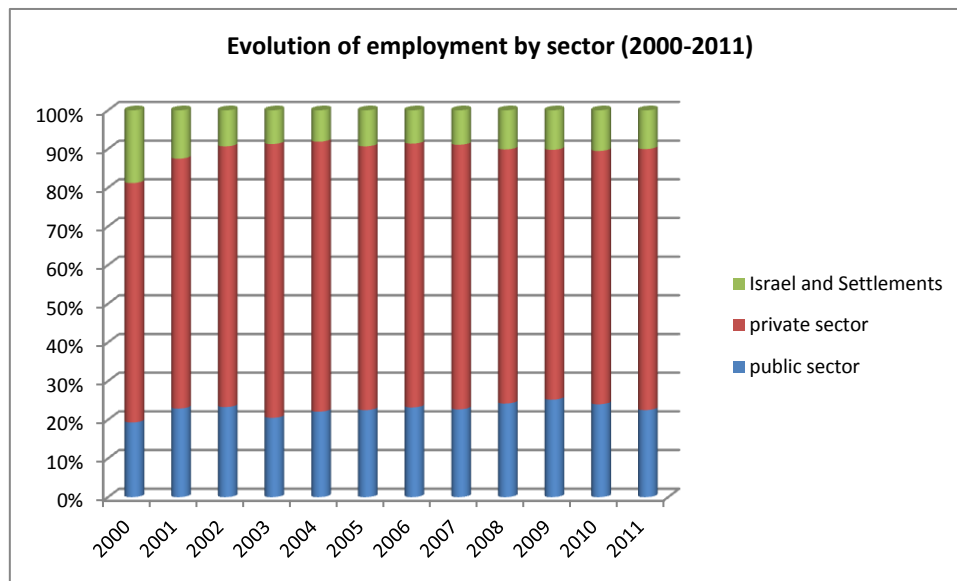
Figure 51: Employment by sector



Source: processed from Palestinian Central Bureau of Statistics data

From the viewpoint of historical statistics, shown in the following chart, the contribution of the private sector to employment has shown a **considerable increase** over the past 12 years.

Figure 52: Evolution of employment by sector



Source: processed from Palestinian Central Bureau of Statistics data

The data shown above show that the project **could be considered pertinent** with respect to the situation characterised by the great importance of the private sector and more specifically by small and medium sized businesses. However, the fact that the credit line was available in a dynamic, growing economic context (despite the political and military problems) without managing to involve the many SMEs, shows that the very conception of the project has numerous aspects that could **cancel out** the pertinent elements despite the positive overall context. The relevance with respect to the Palestinian economic situation could therefore be high, but the conception and mechanism of the project have shown numerous problematic aspects which have not enabled the credit line to succeed.

#### Negative factors

The first aspect that has contributed to the low pertinence of the project is that it is probably based on a feasibility study which **has underestimated some aspects of the Palestinian economy** and was thus unable to take into account future developments like the excess liquidity now prevailing, on the one hand, and the low demand for loans by the Palestinian small and medium size enterprises on the other.

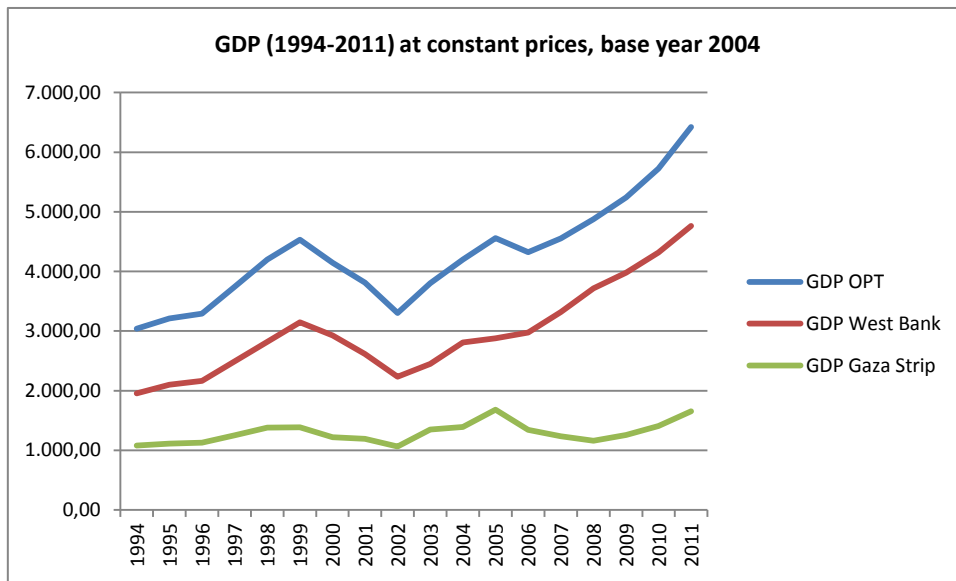
As already recalled, there are currently 18 banks in Palestine (12 of which belonging to International financial groups), many more than in 2004. Besides the “formal” credit circuit, represented by the commercial banks and the Islamic banks, there is an **“informal” parallel circuit** (consisting of forms of credit including the very widespread use of family loans and the “tontine” system in which informal micro-enterprises help each other) which seems to be more widely used than formal systems.

The main implication of this situation is that the Palestinian enterprises only use the services offered by the commercial banks and the Islamic banks to a very limited extent, both for the demand for loans and for depositing their savings. According to the Federation of Palestinian Chambers of Commerce, Industry and Agriculture, the larger enterprises mainly turn to the commercial and Islamic banks, while **many SMEs prefer informal channels**.

The approach of the Palestinian SMEs is **more oriented towards the local and regional dimension**. In this regard, we should recall that there are numerous obstacles to the circulation of goods and services, as well as to Import-Export activities, partly due to the country’s political situation.

The second aspect that has probably contributed to a low pertinence is that the 2004 Project Document refers to the crisis affecting the Palestinian economy, although this crisis already seemed to have been **partly overcome**, as shown in the macroeconomic data shown below.

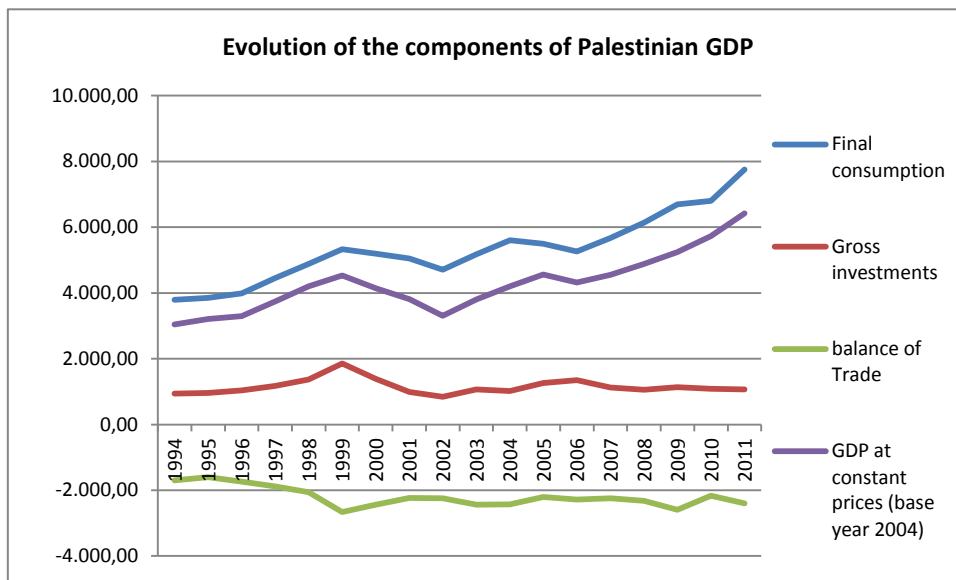
Figure 53: Evolution of GDP in the Occupied Palestinian Territory



Source: processed from Palestinian Central Bureau of Statistics data

While it is true that the GDP had fallen sharply in 2002, the year when the Project Document, forming the basis for subsequent basic choices, was drawn up, **this crisis has definitely been overcome**. And it is likewise true that, as shown in the following chart, the main component of GDP at the time, as over the period up to the present, has been consumption, while **investments were practically absent** and in any case tending to fall.

Figure 54: Evolution of the components of Palestinian GDP

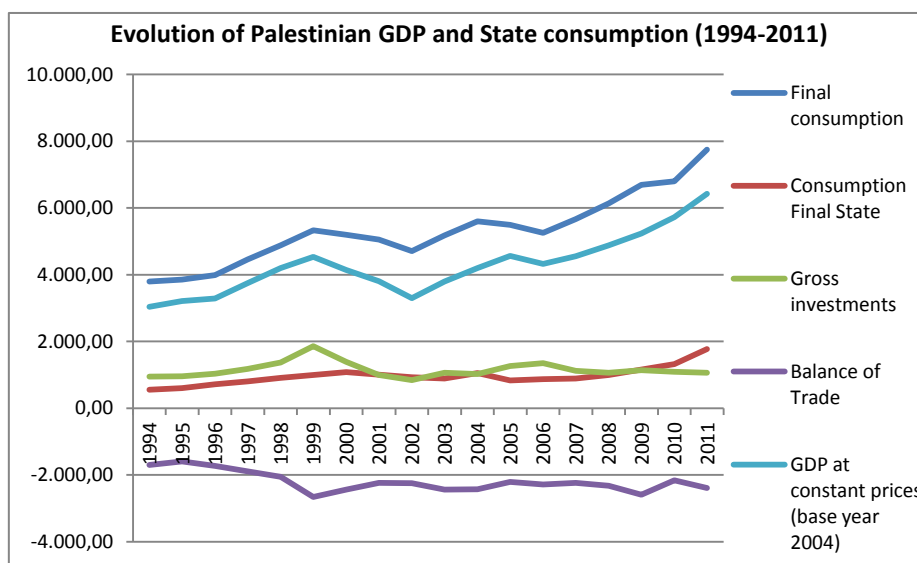


Source: processed from Palestinian Central Bureau of Statistics data

In this context, the project could have played a **complementary role in stimulating GDP growth** which seems to occur, as already recalled, only thanks to final consumption, which has thus been sustained by indebtedness, as also emerges from the trends in the balance of trade, and by the existence of very strong informal economic circuits.

This reasoning seems to be confirmed if we add **final government consumption** to the data on GDP development, as shown in the following chart.

Figure 55: Evolution of Palestinian GDP and State consumption



Source: processed from Palestinian Central Bureau of Statistics data

The historical data on the composition of GDP shows that while government expenditure is quite low, one of the possible solutions is to bet on private investment to stimulate the economy. This concept would be perfectly compatible with the project; however, with the initial conditions changed and the negative factors as mentioned above, there is a further aspect which has probably contributed even more to the low pertinence of the Italian credit line. This is related to the **functional mechanisms and conditions**.

The use of the Italian credit line loans, in fact, **required 65% to be used to purchase Italian machinery and technology**. While understandable, this choice assumes that Palestinian enterprises would show interest and find a comparative advantage with suppliers from other countries, also in the context of significant trade relations between Palestine and Italy.

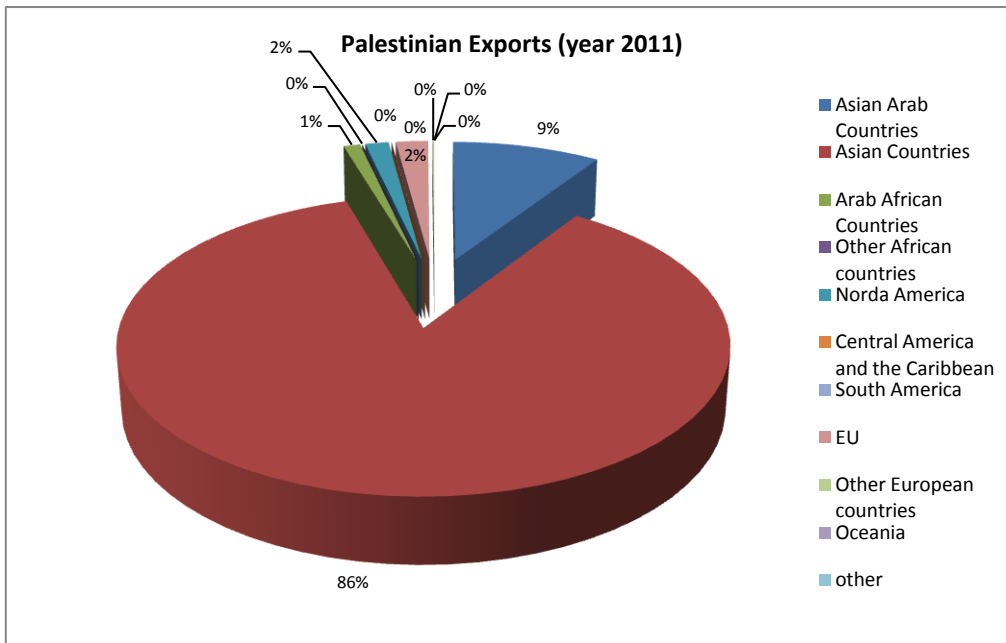
Actually, with regard to the first aspect, as stated by all three beneficiary enterprises interviewed, the Italian machinery and equipment **is much more expensive** than those from other countries, and the advantage of their purchase is only long term and in any case for quality production intended for export. Both aspects are **in contrast** with the political and military situation, past and present, because the free circulation of goods and persons is impossible due to the limitations imposed by Israel.

It is thus very difficult for a Palestinian SME **to make long term commitments** in a climate of uncertainty and with conditions considered to be very costly with regard to the collateral required and the interest rates involved. The banks do not, in fact, grant loans unless these are backed by solid **collateral security**. A paradoxical situation results since because of the total absence of any collective guarantee system, one of the main factors impeding access to credit by the Palestinian SMEs is the lack of collateral security (also related to the country's political problems) to be provided to the banks. With regard to interest rates, those applied by the banks for the Italian credit line **are not sufficiently competitive**, above all with respect to other competing lines of credit such as those provided by the French and German cooperation projects.

On the other hand, with regard to the second aspect, trade with Italy is **virtually non-existent**. Palestine's main partners are the **Asian countries**, in particular China, which alone accounts for over 20% of the total Palestinian trade volume (China is likewise a strong competitor in the top sectors of Italian export such as agro-food, textiles, stone processing and the production of agricultural technology and machinery).

Palestinian export data for the year 2011, shown in the following chart, indicate a net domination by the Asian countries (accounting for 86%) and the Asian Arab countries (with 9%) as export markets, while all the European countries taken together account for just 2% of exports from Palestine.

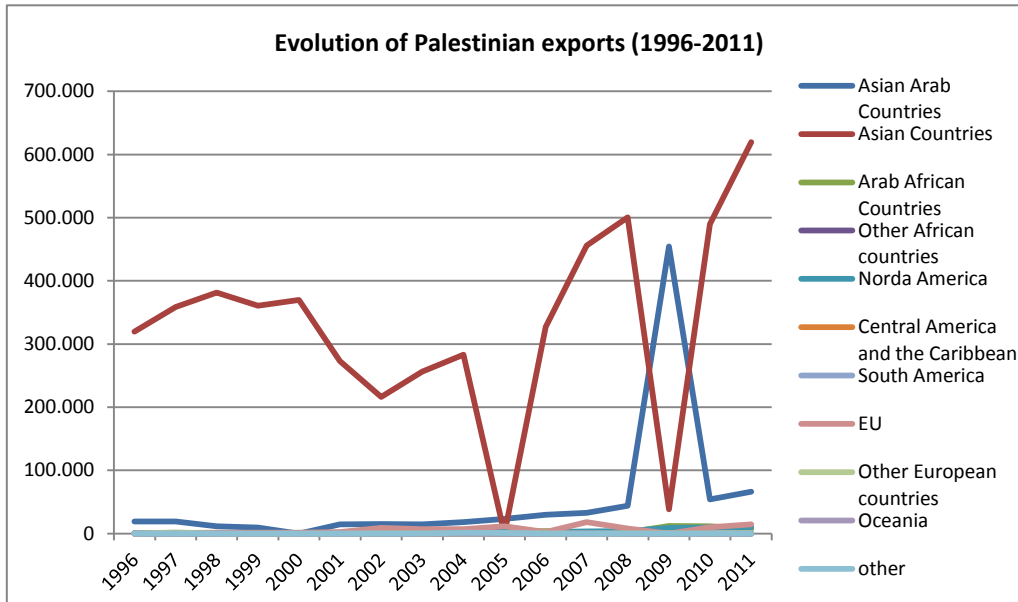
Figure 56: Palestinian Exports (year 2011)



Source: processed from Palestinian Central Bureau of Statistics data

As we can see in the following chart, exports from Palestine to European countries are **absolutely insignificant** and the trends in historical data do not seem to indicate an improvement in the near future.

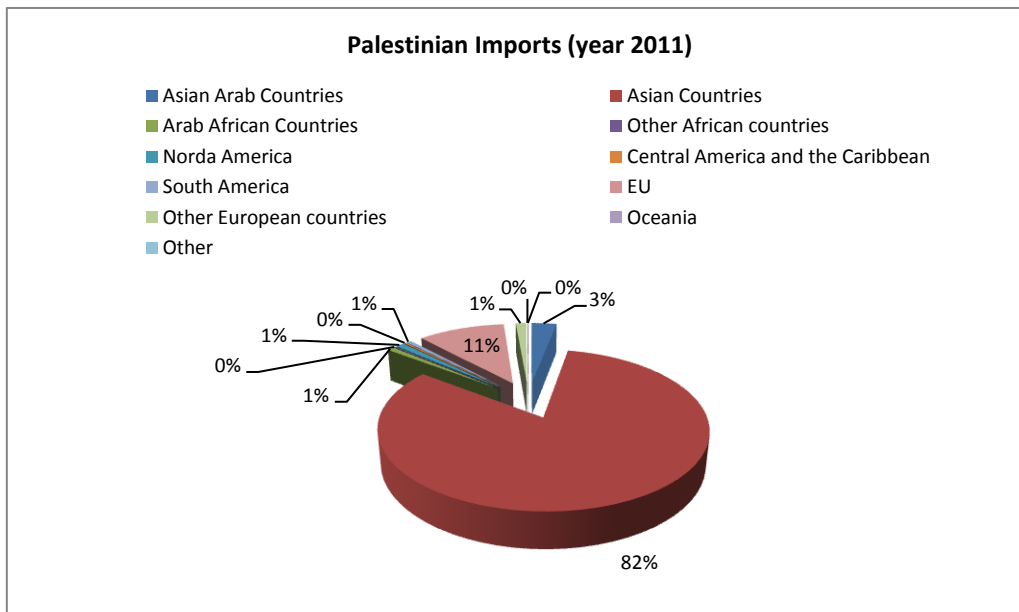
Figure 57: Evolution of Palestinian exports



Source: processed from Palestinian Central Bureau of Statistics data

If we analyse imports to Palestine for the year 2011, the following chart shows that the Asian countries are in **first position** with 82%, followed by the European countries with 11% of the import market.

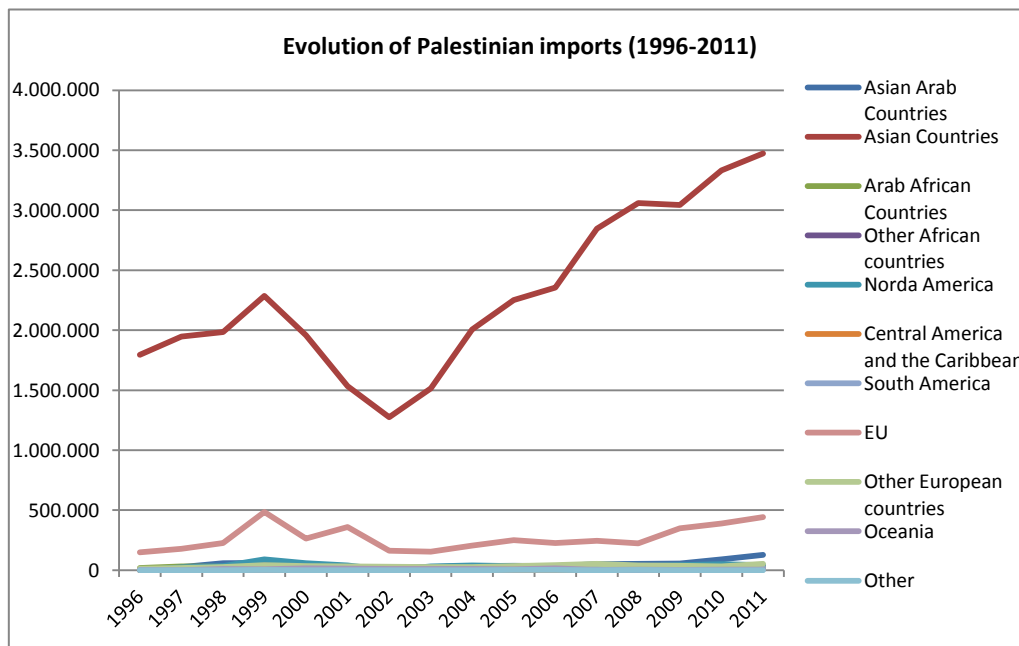
Figure 58: Palestinian Imports (year 2011)



Source: processed from Palestinian Central Bureau of Statistics data

Also in the case of imports, historical statistics shown in the following chart highlight the **extraordinary advance** in the past 12 years recorded by the Asian countries.

Figure 59: Evolution of Palestinian imports

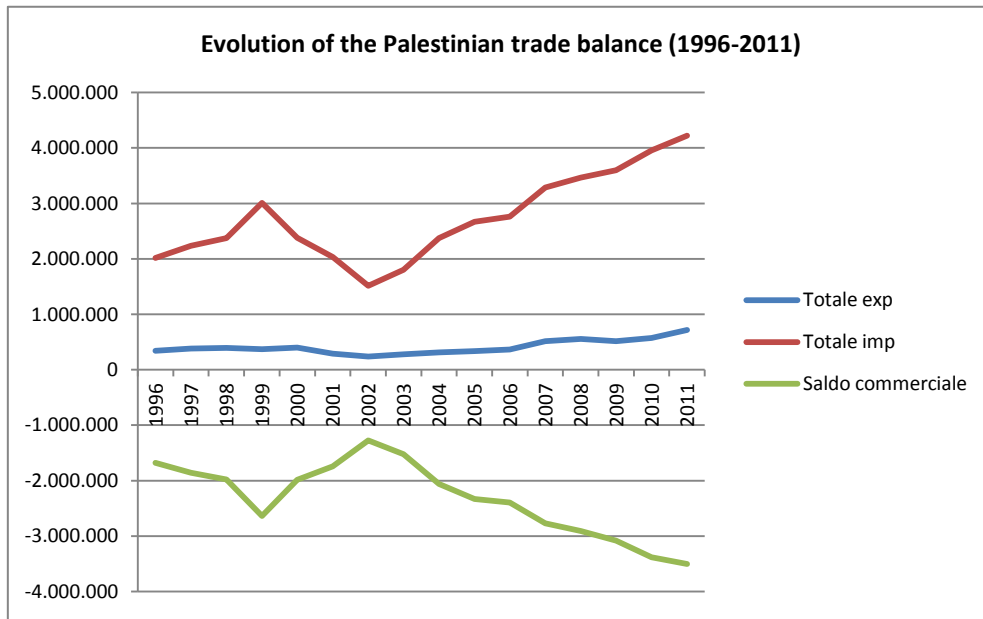


Source: processed from Palestinian Central Bureau of Statistics data

Although Italy and Palestine have well-consolidated political and cultural relations, this does not apply to economic relations, as shown by the share of trade between the two countries, which is **very low** and substantially in line with the overall data analysed for the European countries.

With a comparison between imports and exports we can observe another aspect that has had a negative impact on the pertinence of the project. The result of this comparison provides the figure on the Palestinian balance of trade, which as the following chart shows, has a **quite significant deficit**.

Figure 60: Evolution of the Palestinian trade balance



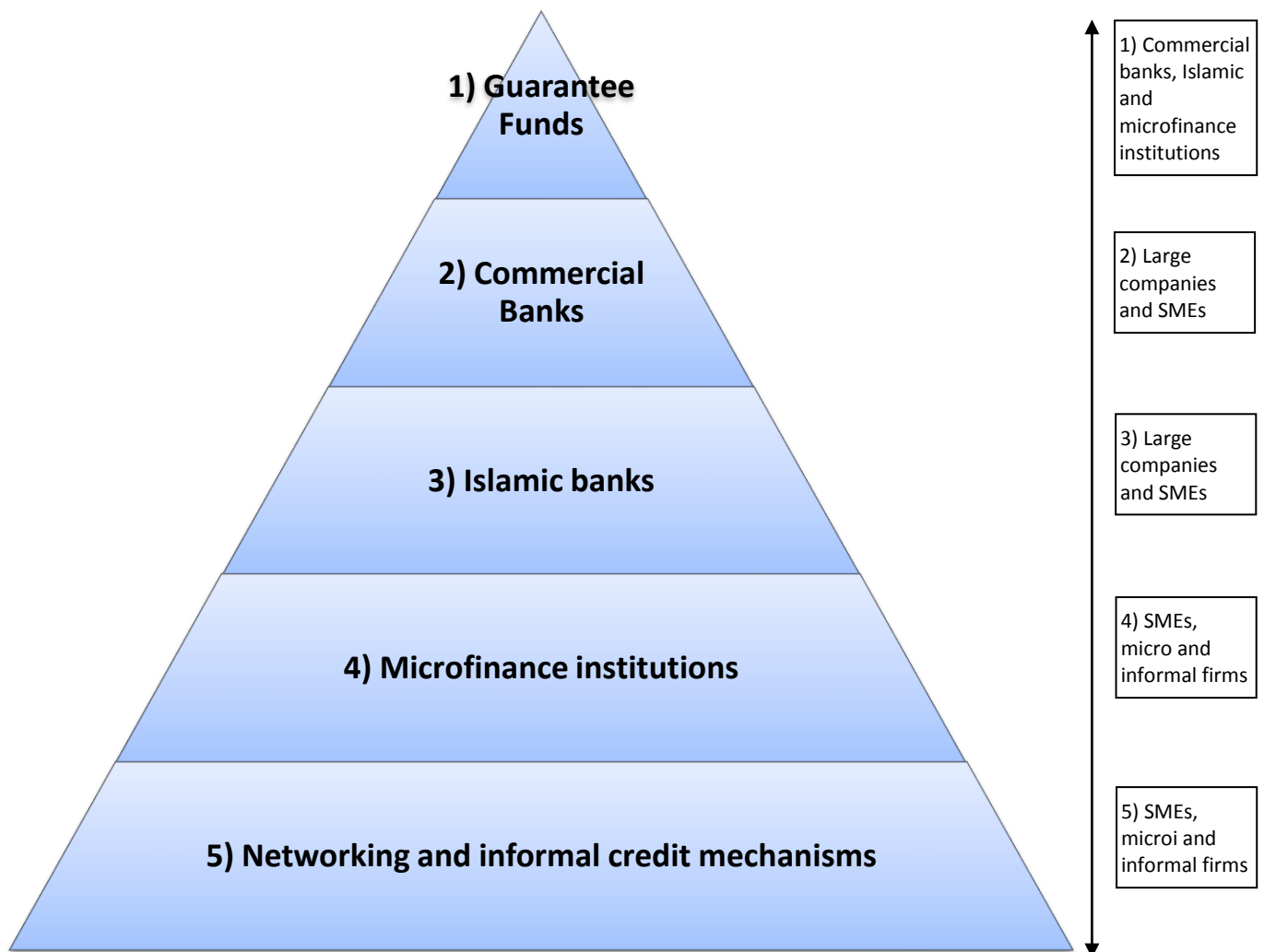
Source: processed from Palestinian Central Bureau of Statistics data

Such a large trade imbalance can only be explained by the **highly informal economy**. We should, however be careful not to consider the highly informal nature of the Palestinian economy, and of the institutions that underlie its actual functioning, as an alibi for the numerous problems that the project has encountered, since other lines of credit, such as the one funded by the GIZ (German Cooperation) or promised by the ADF (French Cooperation) have been proved more attractive to the Palestinian enterprises.

The issue of the highly informal nature of the Palestinian social and economic institutions is rather related to the problem of the **failure to utilise** the capital deposited in the Palestinian commercial banks and Islamic banks; however, also in this case the informal nature of the institutions should not be considered as an obstacle but rather as an **opportunity that has been missed**. The following chart describes the credit market system in Palestine.



Figure 61: The credit market in the Occupied Palestinian Territory



Source: STEM-VCR, 2013

As we can see, the economic protagonists act with **great dynamism** in the various credit circuits. However, apart from this mobility, we can observe that the main users of commercial banks and Islamic banks are the large enterprises, which are already integrated in the world market. The SMEs, on the other hand, tend to mainly use informal networks and credit systems, and sometimes forms of micro-credit and of micro-finance, while making very little use of the services offered by the commercial banks and the Islamic banks.

This attitude by the SMEs can mainly be attributed to two elements:

- the commercial banks and the Islamic banks request **security** which often cannot be provided by the SMEs;
- the presence of **deeply rooted informal systems**, which ensure the functioning of the economic and social relationships and are so favoured that the enterprises often prefer to work with the informal schemes. In particular, in Palestine loans by family and friends, and other lending systems (such as the “tontine” between enterprises) are widespread, and do not require any collateral security.

By the combination of these complementary two elements, the enterprises that cannot provide collateral, but also most of those with access to the services of the commercial and Islamic banks, actually **prefer** the informal credit networks.

Finally, we should point out that the economic protagonists located at the base of the pyramid, although completely informal, often utilise the services offered by micro-credit bodies.

**In conclusion:** The pertinence of the project, which could have positive aspects related to the role of the private sector in the country's development, is on the whole globally very low, with regard to the development of the context from the formulation period to the implementation phase, the factors related to the systems of conditions and criteria for access to borrowing, and finally the low attractiveness of Italian machinery in a context of very limited trade relations between Palestine and Italy.

	Strengths	Weaknesses
<b>Pertinence</b>	<ul style="list-style-type: none"> <li>- Agenda of the decision makers oriented to the attribution of a fundamental role to the private sector and in particular to the SMEs in the country's economy</li> </ul>	<ul style="list-style-type: none"> <li>- A completely changed context from the identification to the implementation state</li> <li>- Italian machinery and equipment are too expensive compared to Asian products</li> <li>- Insignificant trade levels between Italy and Palestine</li> <li>- Excessively heavy conditions for SMEs (collateral and high interest rates)</li> <li>- Underestimation of the informal nature of the Palestinian economy</li> </ul>

#### 4.2.2. Validity and quality of the Logical Framework

The Logical Framework of the project has **considerable drawbacks** in all of its aspects, starting from the results which have no relation with the general and specific stated objectives. While the latter call for the support of Palestinian SMEs, the description of the results seems to shift the outlook and actual aims of the project from the enterprises to the banks. This shift of focus, and in the end, of the actual aims of the project, is contradicted by the indicators regarding the 3 results, which again focus on intervention with regard to the Palestinian SMEs. It should be pointed out that these indicators do not contain any quantification and therefore cannot be defined as result indicators or impact indicators.

As for the hypotheses, they are mentioned in **a mistaken manner** in the activities, while they appear with a generic and tautological formulation in the results. Moreover, the hypotheses fail to take into account the changes in the context, and do not mention the interest of the banks in operating in the project framework, which is a fundamental condition for the success of the project.

Finally, with regard to the activities, as already mentioned in the previous paragraphs, **there is no** reference to the core of the project, which is the use of the credit line by the Palestinian SMEs. In other words, the Logical Framework seems to have forgotten the contents of the planning document and does not in any case represent an operational tool for the implementation and the checking of the activities planned and those implemented.

**In conclusion:** The logical framework of the project is highly insufficient and is not compatible with the aims and contents of the project.

	Strengths	Weaknesses
<b>Logical framework</b>	<ul style="list-style-type: none"> <li>- None</li> </ul>	<ul style="list-style-type: none"> <li>- incompatible with the contents of the project</li> <li>- contradictions between the various parts</li> <li>- absence of the main lending activities to the SMEs, with only the secondary and accompanying activities being implemented</li> </ul>

#### 4.2.3. Effectiveness: expected results and unexpected results

The effectiveness of the measure is **absolutely unsatisfactory**. If we compare the expected results with those obtained, we can see that:

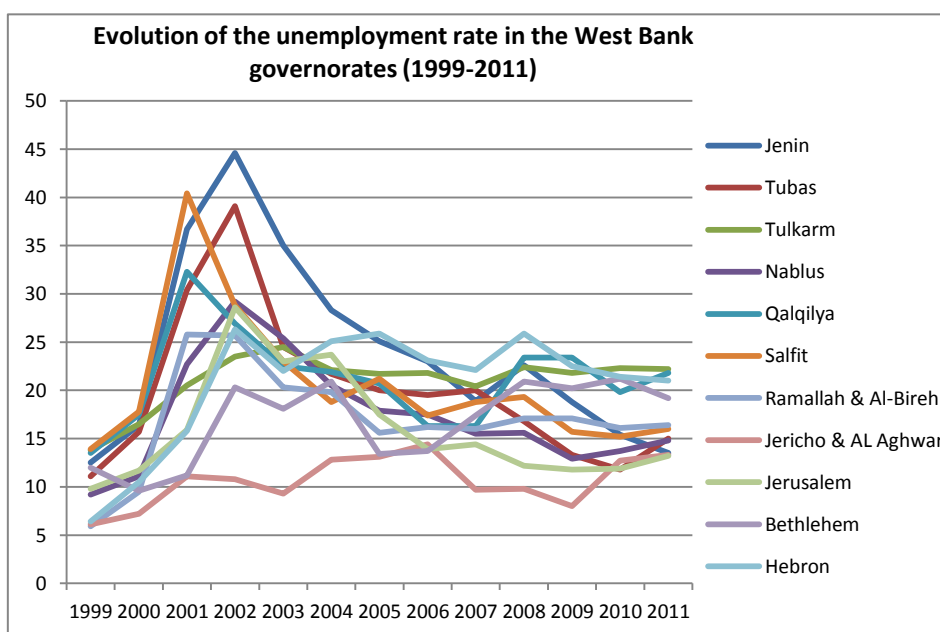
- a) A total of only four commercial banks (and no Islamic bank) have been involved out of the 18 operating in the Country;

- b) Only three enterprises have benefitted from the credit line and currently one of these (PHARMA CARE) is awaiting approval of the second loan;
- c) Only three loans have been paid out by two of the four banks involved, while two banks have not paid out any loans;
- d) The amount of the three loans is 930,000.00 €, compared to the 24.445.625,00 € allocated for the credit line (net of expenses for Technical Assistance and the auditing activity), i.e. 3.6% of the theoretical availability of the credit line;
- e) The creation of jobs is very limited by the number of enterprises involved, by their capacity to guarantee income growth and, more generally, by the Palestinian economy;
- f) The integration in international markets is not guaranteed, since the supply of foreign machinery is facilitated, but not the marketing of the companies' products; furthermore, the Palestinian SMEs apparently show a greater tendency to work on local and regional markets.

It should be pointed out that these aspects, **strongly limiting in relation to the effectiveness of the project**, are partly due to the low level of project relevance and the low (or virtually absent) amount of promotional activity conducted. The latter problem seems to be fundamental for the effectiveness of the project, above all if we consider that the French credit line, which is in many respects similar to the Italian one (for example the maximum ceiling per project is 500,000 Euro and started in 2010, almost at the same time as the Italian project), resulted in the utilization of 4 million Euro out of the 10 million Euro made available by the credit line, with support to a significantly higher number of enterprises (12, of which one still in the implementation phase in March 2013).

Another decisive aspect determining the low effectiveness of the measure is related to the fact that although the outlook of the Palestinian economy has been **more favourable** in recent years, the project has not managed to trigger loan applications by the Palestinian SMEs. Furthermore, the fact that the economy in the Palestinian territories has recently shown a positive trend is shown by the unemployment rate figures which, as shown in the following chart, have fallen considerably in the West Bank.

Figure 62: Evolution of the unemployment rate in the West Bank governorates



Source: processed from Palestinian Central Bureau of Statistics data

Also taking into account the Palestinian territories as a whole, and including the Gaza Strip which because of its isolation seems to counter the positive trends in unemployment, the data show the same **positive trend** towards a significant quantitative decrease of this indicator, as shown in the following chart.

Figure 63: Unemployment rate evolution in the occupied Palestinian territories



Source: processed from Palestinian Central Bureau of Statistics data

Finally, with regard to the issue of effectiveness, we should point out the complete **absence of an active role**, but above all of any interest, as also shown by the interviews that the mission has conducted with top management in the banks regarding the proposal of the Italian credit line to their customers.

**In conclusion:** With just 3.6% of the resources consumed, the effectiveness of the project is absolutely insignificant. This highly negative opinion must necessarily be re-examined in the light of the reformulation of many aspects of the project, regarding the beneficiary target, the conditions for access to the credit line and its functioning.

	Strengths	Weaknesses
<b>Effectiveness</b>	- none	- the project has not yet achieved any result

#### 4.2.4. Efficiency

The assessment process can only lead to a **highly negative opinion** in relation to the efficiency of the project. While the credit line was not actually utilised, the accessory funds for the accompaniment process, such as those for the Technical Assistance provided by the PMU, were actually completely used even before the project became operational.

As for the effectiveness, this opinion must be reviewed in the light of the reformulation of the project.

**In conclusion:** The efficiency of the project is very low, taking into account the failure to use the credit line and expenditure of the funds for Technical Assistance provided by the PMU before the project actually became operational.

	Strengths	Weaknesses
<b>Efficiency</b>	- none	- general lack of capacity to react to the difficulties in the context - expenditure of all the funds for Technical Assistance before the operational start-up of the project

#### 4.2.5. Sustainability

The question of the sustainability of the project, as well as of its pertinence, should be looked into in greater detail, since we should make a **substantial distinction between the two phases of the project experience**. The first phase marking the project experience up to its reformulation undoubtedly shows many drawbacks due to the more general problems related to pertinence, and to the lack of interest on the part of the main protagonists that should have been involved. These are first of all the small and medium size enterprises, which prefer the informal context of the credit network, and then the banks, which besides deeming the procedures for the Italian credit line to be too complex, are not actually convinced of the aims of the project.

Under these conditions, and with the problems highlighted regarding the more general issue of pertinence, the project **cannot be considered sustainable** in its original formulation.

On the other hand, if we consider the project as **recently reformulated**, we can reasonably imagine that the **sustainability could increase**, naturally as long as a better definition of the target beneficiaries has been achieved, but also with greater motivation among the protagonists involved, so that their interest justifies their active and above all their proactive role. Sustainability must in any case take into account territorial balance, with particular reference to the problems related to the Gaza Strip.

Finally, we can undoubtedly see the reformulation of the project as a **positive factor** in the basic aspects of the definition of the target beneficiaries, the eligibility criteria and above all the operating mechanisms of the credit line. This operation, which in any case indicates the perception of the problems involved, could lead us to hope that the project could resume on other bases, and contribute to the development of the economic protagonists who can help bring about better living conditions for the Palestinian population.

**In conclusion:** Sustainability was completely lacking up to now. The recent reformulation of the project can be a point of departure to produce greater sustainability.

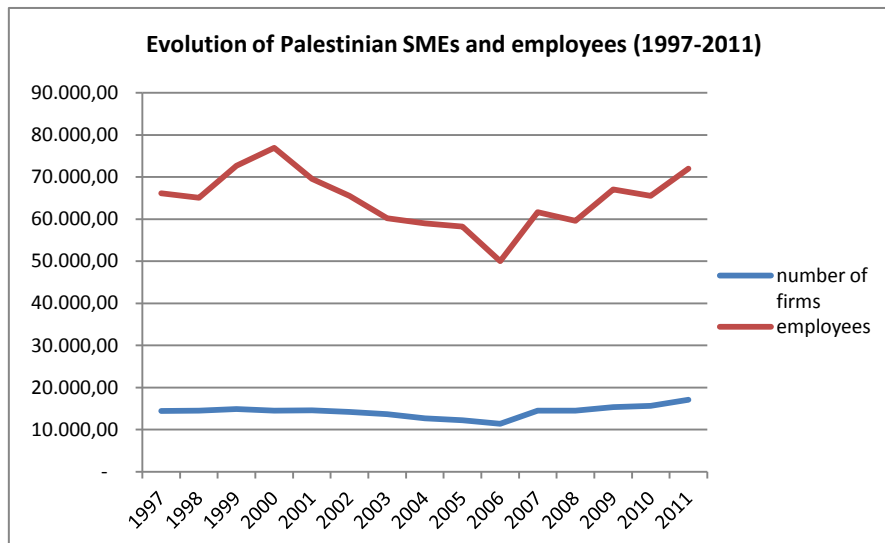
	<i>Strengths</i>	<i>Weaknesses</i>
<b>Sustainability</b>	<ul style="list-style-type: none"><li>- the perception of the need for a reformulation of the project</li><li>- the reformulation of the target beneficiaries, eligibility criteria and operational conditions of the credit line</li></ul>	<ul style="list-style-type: none"><li>- lack of interest for the project by the main protagonists</li><li>- failure to include the issue of territorial balance</li></ul>

#### 4.2.6. Impact

The impact of the project was virtually **nil**. Because of the very low number of enterprises involved and loans paid out (3.6 % of the resources available on the credit line), the process of economic, employment and income growth deriving from the benefits of the credit line are slight. This aspect is even more significant in the light of the fact that the project, once it became operational, has coincided with an economic situation showing all the signs of a net upward trend in the past four years (when the credit line was active).

If we consider the following chart, showing the development of the number of enterprises and of employed persons, it seems obvious that the overall economic context has recorded a **definite improvement starting from 2008**.

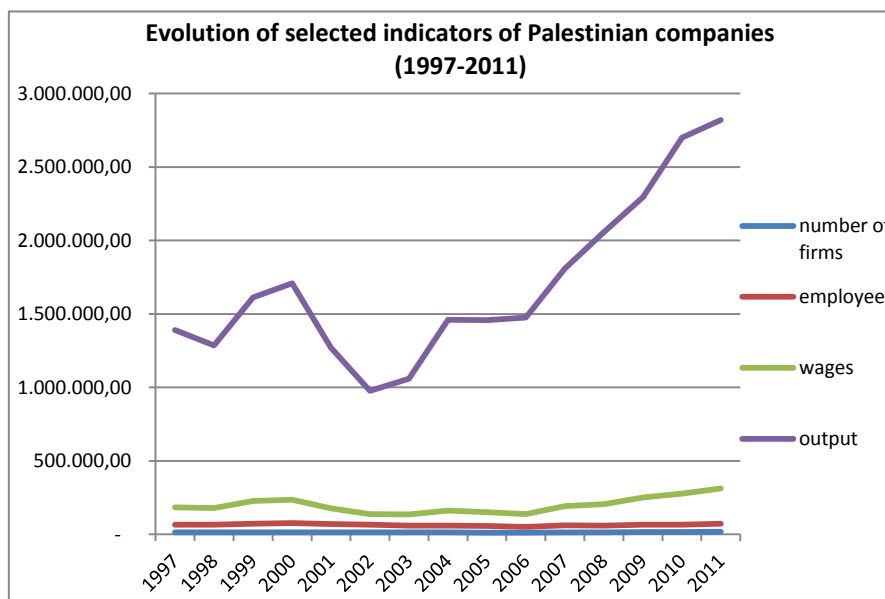
Figure 64: Evolution of Palestinian SMEs and employees



Source: processed from Palestinian Central Bureau of Statistics data

The most interesting aspect in the relationship between the project and the changed economic situation regards the nature of this change, as shown in the following chart.

Figure 65: Evolution of selected indicators of Palestinian companies



Source: processed from Palestinian Central Bureau of Statistics data

As we can see, the considerable rise in output and the substantial stability of employment could indicate a development of enterprises towards **high capital intensive production** and not high labour intensive. This implies a change in the nature of the business fabric, which has started to use more and more technology, and which need long term investments to acquire this technology.

This need for technology and long term investments by the Palestinian enterprises, including the SMEs, is, paradoxically, the aspect that the Italian credit line could have offered. However, for reasons of pertinence, effectiveness and efficiency, and above all visibility, **the project was unable to fit into the new context.**

From the impact point of view, rather than “absent impact” we can refer to a “**missing impact**”, thus indicating the potentials that the project was unable to express.

The revision of the project could thus represent a good opportunity for a **re-launch**, as long as the new context, the relative economic processes and the structural nature of the Palestinian SMEs are taken into account.

**In conclusion:** Despite the theoretically favourable conditions in the new Palestinian economic context, the project has exploited the opportunities for a greater impact.

	Strengths	Weaknesses
<b>Impact</b>	- none	- cannot be evaluated

#### 4.2.7. Visibility

The evaluation of visibility is necessarily **highly problematic**, given the insufficiency of the promotional activities, the irrelevance of the actions undertaken and the small number of protagonists involved, especially the banks and the employers' and professional organisations and associations in Palestine. Some presentations have actually been made, but have had a negative impact since they were made long before the credit was effectively available.

We should add that many protagonists **have not been informed** not only about the conditions of the Italian credit line, but very often of the fact that it exists. It is thus significant that the only three beneficiary enterprises came into contact with the project for "personal" reasons: in one case the owner is a former minister, who obviously already knew about the credit line since he had taken part in the intergovernmental negotiations to set it up, and in the other two cases contact was due to friendly relations with a bank manager.

In this context, the visibility of the MAE-DGCS was not just extremely limited, by also had a **negative image** since the people who found out about the credit line have a poor opinion on it.

**In conclusion:** The visibility of the project is highly insufficient and virtually none of the protagonists that are fundamental for implementation know that the project exists.

	Strengths	Weaknesses
<b>Visibility</b>	- none	- cannot be evaluated

#### 4.2.8. Efficiency of the implementation mechanism

Also with regard to the opinion on the efficiency of the project implementation mechanism, a **distinction** must be made between the original project and procedures that should characterise the future phase for re-launching the credit line. The procedures and framework originally planned for access by SMEs and the related individual investment were, in fact, often **excessively complex**. The enterprises interviewed, as well as the only two banks involved, complained about the bureaucracy of the procedures and excess waiting time between the loan application and the actual issue of the credit.

Moreover, according to many of the parties contacted, the role of the PMU regarding the advance approval of the loans using the credit line, undertaken jointly with the credit Line Steering Committee (CLSC), involves a **useless extension of the time** required for the loan issue, and does not seem to be very transparent.

On the basis of the considerations made above, in 2011 the UTL, together with the MoF, formulated a number of proposals and recommendations in order to improve the effectiveness and efficiency of the project and **to remove the limiting effects** on its operation.

A comparison between the original framework and the one that the project should adopt for the new future phase shows that the new system is undoubtedly **more efficient and streamlined**, although serious doubts remain as to the capacity to really involve the banks, which have a fundamental role in the implementation of the activities, and the employer organisations, which could have a decisive function in ensuring that effective information is available on the opportunities for credit access for the Palestinian SMEs.

**In conclusion:** While in the first phase the project implementation mechanism was not effective, the recent reformulation has made it more suited to the requirements of the beneficiaries.

	Strengths	Weaknesses
<b>Implementation mechanism</b>	- Capacity of the mechanism to evolve in order to adapt to the requirements of the current situation	- The mechanism is inefficient and hard to apply in the context of the Palestinian SMEs - Criticisms and objections by the banks

### 4.3. Lessons learned

The project was strongly affected by two original defects. On the one hand, the dynamics and trends under way in the Palestinian context had not been understood, and on the other the importance of the lack of a consolidated background of trade relations between Italy and Palestine had been underestimated.

Both of these aspects are related to a development and formulation phase of the project in which **feasibility analysis was absent**. Promoting a credit line to benefit SMEs that are not interested because they prefer informal economic and borrowing systems, and entrusting its management to intermediary banks that not only fail to see advantages but also point out potential problems, means risking the possibility of the project succeeding from the very beginning.

This does not mean to say that the project is useless, since as we have shown, the production trend among the Palestinian enterprises is constantly rising under a **capital intensive** rather than a labour-intensive model. This requires production based on the increasing use of technology, which is possible only with long term investments.

It is equally obvious that a potentially favourable economic context **is not enough** to guarantee the success of the project, since the existence of a credit line has not succeeded in solving the basic problem of access to credit, which is due to **collateral security**. In this regard even the reformulation of the project, while undoubtedly having conditions more likely to attract Palestinian SMEs, will not change the outcome of the project very much unless to basic issues are faced. One is the compatibility of a credit line which up to now has been virtually unused with the significant excess of liquidity in the banking system. The other is the interest on the part of the Palestinian enterprises in Italian machinery which though undoubtedly judged as being better quality and durability, is not suited to a situation where, due to political uncertainty and the issue of relations with the State of Israel, it is hard to plan in terms of investments a long term.

The fact that the project has not succeeded is thus due to a **poor initial analysis at the time of formulation** and the inability during implementation to interpret a situation which in the meantime had radically changed.

The new phase undoubtedly provides a **new opportunity**, but it is unlikely that the results of the credit line can be changed without revising the basic aims of the credit line and its feasibility, in a situation that probably requires measures quite different from the ones which, though revised in 2011, were formulated as long ago as 2004.

### 4.4. Recommendations

On the basis of the **problematic results** emerging from this assessment, it seems desirable to develop a new approach aimed at the involvement of new protagonists, and greater participation in the project. In particular, however the project is reformulated and whatever changes there are in eligibility criteria to make financing mechanisms smoother and the credit line closer to the requirements of the enterprises, the following items seem necessary to ensure that the project will work and have an effective impact on the context for the measures, with greater involvement of the protagonists traditionally excluded from economic policies and development measures:

- involving a **larger number of banks**, including the Islamic banks, ensuring their motivated consensus;
- involving **new protagonists** such as the Federation of the Chambers of Commerce, Industry and Agriculture and the other employers' and sector associations, agricultural cooperatives and associations and informal



associations and networks of the protagonists, in order to stimulate interest on the part of the Palestinian SMEs;

- focusing on funding aimed at the **creation of new enterprises** (if possible considering informal enterprises) and broadening the range of potential beneficiaries;
- undertaking **effective grassroots promotion**, for example by advertising the initiative in newspaper and radio ads, conferences and promotional initiatives, the distribution of leaflets for initiatives and at the banks participating in the project.

These aspects alone can never ensure the success of the project if they are not accompanied by concrete, effective support measures to the Palestinian SMEs with respect to the **key issue of collateral security** for access to credit, as the French cooperation project has done with its credit line. In this regard, the creation of mechanisms to guarantee and manage risks is desirable with the involvement of Guarantee Funds, for example the EPCGF-European Palestinian Credit Guarantee Fund.

Finally, we should stress the need to **strengthen the present mandate of the PMU**, including promotional activities and the coordination of forms of Technical Assistance to the SMEs.

## 5. THE EGYPT PROJECT

### 5.1. Project description

#### 5.1.1. *The institutional framework*

The origins of the project go back to July 1997, when a Memorandum of Understanding between Government of Italy-GOI and Government of Egypt GOE was signed in Cairo. The agreement granted GOE a soft loan of 15,493,706.97 Euro (originally, 30,000,000,000 Italian L) to be utilised for establishing a credit line to support development of Egyptian Small and Medium Enterprises-SMEs and Egyptian Italian Joint Ventures<sup>1</sup>.

The Italian credit line for Egyptian SMEs was then established by the Italian Government in 1999, to support the development of private sector in Egypt. According to the agreement the soft loan would be made available to potential beneficiaries through the local banking system for financing long-term industrial investment.

The credit funds had to be transferred from the Italian government to the Central Bank of Egypt (CBE), and then transmitted by the CBE to commercial banks, which were expected to assume an intermediary role in front of the final beneficiaries, i.e. the SME. Actually, one only bank has been involved in the disbursement of credit to private firms: this is the National Bank of Egypt (NBE). Further actors involved in project management included UNIDO "Investment Promotion Unit" and the Italian Cooperation Local Technical Unit (UTL).

The credit line finances both the investment value (for the amount concerning the purchase of equipment, technology transfer and technical training, technical assistance, industrial licenses and industrial patents) and the related technical assistance in presenting bankable requests. Goods and services supplied through the credit line shall be of Italian origin, however a maximum amount of %20 of the required financing may be utilised to cover costs of goods and services having an Egyptian origin through local contracts or through intermediation of the Italian supplier<sup>2</sup>.

The credit line has been disbursed into two advanced instalments, in a special account, opened in a local bank in the name of the national Borrower. The interest produced by the special account shall be used by the national borrower for the purpose and along the modalities described in the present implementation protocol.

The disbursement of the first instalment in total of 5 million Euros has been made after the special account has been opened and a request made by CBE.

Second instalment was made available after expenditure and allocation report has reached more than 2/3 of the amount of the first instalment, the national Bank provided all support document as stated in the implementation protocol. The transfer was made to the special account during 2010.

#### 5.1.2. *Objectives, methodological approach and the foreseen activities*

##### **The objectives**

The **funding agreement** between the Italian government and the Egyptian defines the objective of the project as "to support SEMs registered in Egypt, as well as not to exclude research centres and universities which are involved in setting pilot plants or demonstrate centres in the field of technological innovation and environmental protection".

Within the above mentioned framework the project pursues a double strategy:

- direct support to financial services providers;
- capacity building assistance to the entrepreneurs in order to select and prepare bankable proposals.

The main objective of the credit line in fact is to "provide to Egyptian SME financial resources, passing through the local banking system, but with more favourable conditions than those provided by the market. In such way,

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<sup>1</sup> Implementation protocol between the government of Italy and the government of Egypt, 2000.

<sup>2</sup> Implementation protocol between GOI and GOE, Article 3.3.

the credit line is expected to allow SMEs to expand their industrial capacity, particularly through the acquisition of machinery, know-how and licenses from Italy”.

In this framework a set of priority criteria were established concerning the eligibility for financing:

- a- Egyptian-Italian equity joint ventures
- b- Technology upgrading
- c- Technology innovation employment generation
- d- Employment generation
- e- Clean production and pollution control
- f- Export oriented products and export substitution production.

Coherently with Italian and Egyptian government’s priorities, preference is expected to be given to enterprises that using the credit create new employment opportunities, purchase innovating machineries and technologies or reduce environmental impact. In addition of these formalised objectives, the project has the intention to foster the opening of the credit market for private sector in Egypt, which was at project identification under the state monopoly.

#### **Implementation methodology and foreseen activities**

The project methodology was based on the involvement of two main actors in the management of the credit: the UNIDO Investment Promotion Unit, that was charged of activities related to the identification of final beneficiaries and to the provision of technical assistance so to facilitate their access to the banks, and the commercial banks, charged of the functions linked to credit approval, disbursement and management.

The approval of the eligibility for the credit was related to three main elements:

- a business plan and loan application, including the description of the project, particularly focusing on the foreseen use of the credit soft loan and on the definition of the way it would contribute to the development of the company business;
- the financial statements, as reference about the company business operations;
- presentation of collaterals, according to the bank requirements.

Once defined its eligibility, the involved company had to submit:

- the specifications of the machinery to import;
- the Italian supplier business details, including bank details and final offer (that should be approved, as well, taking into account that at least 50% of raw materials used should come from Italy).

Both the CBE and the NBE used in the concession of loans a conservative approach, focusing on the collaterals, rather than on the business plan.

The loans to be provided were characterised by the following main features:

*Table 22: The features and conditions of loans*

<b>The features and conditions of loans</b>	
<b>Loans dimension</b>	E 150,000 – 2,000,000
<b>Eligible subjects</b>	Egyptian private companies Italo – Egyptian Joint Ventures Universities and Research centers
<b>Interest rate</b>	For Italo-Egyptian Joint venture: 60% of the official interest rate For Egyptian private companies: 70 % of the official interest rate In any case the end user interest rate shall not be lower than %4 <sup>3</sup> .
<b>Reimbursement time</b>	3 to 7 years (1 to 3 years of grace) <sup>4</sup>

<sup>3</sup> Implementation Protocol between GOI and GOE, article 4.5.

<sup>4</sup> Implementation Protocol between GOI and GOE, article 4.6.

An expected result of the project was not formally defined. However, looking at the criteria defined for the credit, expected results of the project consisted in the provision of a range between 5 (big) and 60 (small) loans. However, given all the above pre conditions, the Egyptian SMEs context and the fact most of the small enterprises are informal in their nature, and despite the Technical Assistance support provided by UNIDO, the end result was expected to be that of financing a relative small number of potential lenders.

As a fact, the adoption of the European definition of SME as a criterion to access credit, open the credit opportunities offered by the project also to companies that are to be considered relatively large in the local context.

### 5.1.3. The project budget

The budget of the projects, as defined in the 2004 agreement, is 10,033,372.56 Euros. This amount of money was expected to be distributed as loans to final beneficiaries.

Table 23: The project budget

The budget of the project	
BUDGET ITEMS	EURO
Total available credit line	10.033.372,56
Loans	9.472.901,00
Available funds at December 2011	560.471,56

In addition to this amount, further resources have been made available by the Italian Government to support the existence of the UNIDO – IPU in Cairo (this in fact was funded through the Italian voluntary contributions to UNIDO, until 2008).

### 5.1.4. Implementation mechanisms

The **Egypt foreign ministry** was the original counterpart of Italian Cooperation for the agreement. Later the responsibility over the implementation was transferred to the International **cooperation ministry – MoIC**, as representative of the Egyptian government. The operational counterpart of the Italian Cooperation was the **Central Bank of Egypt (CBE)**.

Also for fostering the opening and liberalisation of credit market for private sector, the CBE was expected to identify and mobilise different commercial banks to channel the credit towards end beneficiaries: 7 commercial banks were originally identified, but 1 only was actually involved. This is the **National Bank of Egypt (NBE)**.

The **Italian Cooperation UTL** had mainly an overseeing role, and had the power to refuse the concession of loans proposed by the NBE. However such power was never exercised.

**UNIDO** mission to Egypt was designated to be responsible for:

- identification, capacity building and development of business plans for SMEs;
- supporting local SMEs in developing bankable proposals;
- coaching and mentoring SMEs on how to deal with bank procedures relevant to lending;
- formulation and negotiation cooperation agreements with foreign counterparts, the Lending Bank (National Bank of Egypt-NBE) carries out the credit worthiness.

Through the involvement of UNIDO, the Italian credit scheme was expected to integrate financial and non financial tools, whereas the technical assistance makes the credit supply on easier terms more effective. And also contributing in this way to the testing of risk evaluation, investment analysis and enterprise support approaches, to be later adopted by the banks.

Finally a **management committee** was established, consisting of representatives of Italian embassy/cooperation office, Ministry of International cooperation, NBE and UNIDO. This committee – according to the Egypt Ministry of International Cooperation – never met regularly and it was not effective<sup>5</sup>.

<sup>5</sup> Interview with Ms. Nadia Fathalla, Ministry for International Cooperation Egypt, April 2013.

### 5.1.5. Project actual activities

The credit line has been operational since 2006, when the financing convention was signed. Following the signature of the agreement in fact, the Italian government transferred the first instalment to the CBE, however arriving to the signature of the agreement took about 5 years.

Three main phases can be identified in project implementation:

- the first between the years of 1999-2004, included the negotiation and approval of the agreement final version;
- the second, in the period of 2004-2009, including the first instalment and its engagement;
- the third, from 2009 until nowadays, including the second instalment and its engagement.

During the first and second phases, the involvement of UNIDO investment promotion unit (IPU) has been a main feature of the project. However – as it will be more visible in the following table – UNIDO engagement did not result in an high number of credits.

UNIDO-IPU mission came to an end on December 2009. However the Italian funding was finalized on December 2008, following up an official communication of the Italian Cooperation. Since then the UNIDO-IPU activity continued with the own UNIDO funds and only for the assistance to GAFI. Following the end of collaboration with UNIDO-IPU a direct management role has been assumed by the Italian Cooperation Local Technical Unit (UTL) and by the BNE.

As for the Italian Cooperation, an external consultant was hired for providing short term assistance to project and three promotion events were carried out.

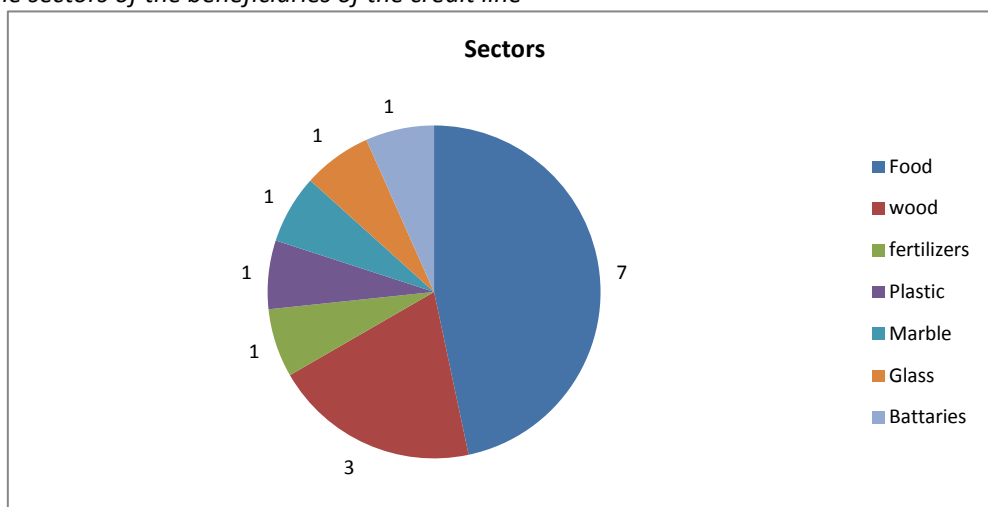
The NBE was expected:

- to conduct the feasibility studies for the evaluation of credit requests;
- to support potential clients in accessing to the credit line;
- to carry out promotional activities mainly through conferences' and bank branches.

Little activity was carried out by NBE through specific initiatives. Actually, the main engagement of the NBE was to provide assistance to potential borrowers, through the bank officers.

Twelve enterprises have been financed through the credit line, through 15 loans: one enterprise had two loans (Apex, see the list below), one another had three loans (Tag El Melouk) and the rest got one loan only.

Figure 67: The sectors of the beneficiaries of the credit line



Below is the table containing the list of the beneficiaries of the credit line.

Table 24: List of the beneficiaries of the credit line

List of beneficiaries and projects up -to April 22, 2013 (as provided from NBE)						
Egyptian Enterprise	Italian Provider	Description of Goods	Contract value (Euro)	Loan date	NBE Branch	Maturity
Chloride	Sovema-Pompeo-Moran	Mixing plant	350,000.00	30 April 2007	Giza	19/08/2011
Apex Furniture	Biesse	Artech Woodworking Machinery	167,000.00	5 August 2007	Tharwat	30/06/2011
Egypt Trade	Polin-PFMP Packing	Cupcake packing line	1,144,000.00	9 August 2007	Elwi	03/02/2013
Dody Plast	Tecnova	Water cooling unit	195,000.00	13 January 2008	Alexandria	27/02/2012
El Wadi for food indust.	WTEC	Water treatment Plant	1,580,000.00	18 May 2008	Alexandria	20/08/2012
Apex Furniture	Cefla	Expansion	79,325.00	24 October 2011	Tharwat	01/04/2013
Al Behera Fertilizers & Chemicals	SEKO	Compost machinery	478,500.00	16 August 2010	Tanta	30/08/2016
German Co. for Batteries	SOVEMA S.P.A	New production line	2,000,000.00	1 June 2011	El Tal El Kabir	07/08/2016
Tag El Melouk Food Indust	Omag	Production of Backing Powder-Vanilla	714,000.00	2 August 2011	6 <sup>th</sup> October Ind. Zone	01/01/2016
Tag El Melouk Food Indust	Omag	Packing line	266,400.00	15 November 2011	6 <sup>th</sup> October Ind. Zone	26/02/2017
Hadad Group for Marble	Luna Abrasvi-Marmipedrotti Graniti Comas Simec	New production line	976,700.00	15 June 2011	Mokatam	14/06/2021
Badry wooden Industries	SCM Group	New production line	375,976.00	6 September 2011	Maadi	01/08/2012
Med Star	Abate Basilio & C	Four Cavities IML, Mould	305,000.00	16 January 2011	Heliopolis	01/06/2016
Tag El Melouk Food Indust	Omag	New production line	441,000.00	30 December 2012	6 <sup>th</sup> October Ind. Zone	20/01/2017
Mega Glass	Falomi glass Furnaces	Glass melting plant	400,000.00	4 July 2012	Horya-Fayoum	04/07/2016
Total			9,472,901.00			
Un Allocated			560,471.56			

More enterprises than those which obtained loans have been involved in the project.

According to UNIDO report, up to October 2007, 31 enterprises had been involved in the preparation of projects for accessing the credit line. However, only 3 of these reached the final approval of the loan by the NBE; one was pending at the time and was later rejected; 9 projects withdrawn or could not present complete documents, 8

were rejected and 10 considered as on going<sup>6</sup>: actually just a small percentage of enterprises who did actively tried to get access to the credit line loan, could successfully meet the requirements.

Interest rates applied by NBE have been normally around 3%, and were aimed to cover the operational cost of the bank rather than the risk: in order to reduce potential risks NBE normally assumed a conservative position, by selecting well established business, which would be able to provide solid collaterals (such collaterals can be high up to 120% of the loan value: in some cases the enterprises were asked to deposit in the bank an amount equal to the one asked as loan).

Technical assistance to enterprises was limited to the stage of bank application and pre-investment, and it could include support in the formulation of business plan and in applying to the NBE. No any capacity building or institutional development support has been provided to enterprises.

#### *5.1.6. Actors involved in the project activities*

Actors involved in the project include:

- the government of Egypt
- the Central Bank and the National Bank of Egypt
- the Italian Cooperation
- the UNIDO – IPU
- the enterprises

Moreover, other organisations – such as the Italian Institute of foreign trade (ICE) – have been occasionally involved, as sources of informations to be provided to enterprises or as “hosts” of presentations and communication events concerning the credit line.

#### **Egypt national government institutions**

The government of Egypt designated the ministry of international cooperation to represent it in dealing with the Italian cooperation, in relation to the credit line project, from the ministry end, the assistant to the minister for European affairs and his team are the ones who did handle communication and coordination related to this project. The ministry was participating in the project steering committee.

#### **Banks**

The **Central Bank of Egypt** is receiving the credit resources from the Italian cooperation, with the incumbency of to distribute it among the national banks. The original plan under the project was to distribute the loans and divide the total amount of the credit among eight banks in Egypt.

The first instalment of total 5 million Euros, was actually distributed among, National Bank, Bank of Massr, Qatar and CIB, Ahli united bank, Misr Iran development bank, bank of Alexandria and the Commercial International Bank.

However after the midterm review and during a joint meeting with the Central Bank, seven banks decided to pull out as the total amount was too small 10 millions to be divided among several institutions. Then the **NBE** was chosen to be the one to carry on as a single bank. Reasons for choosing the NBE include its dimension and the number of branches the bank has at National level; moreover the NBE has some departments and officers specialised in supporting SMEs (about 1000 officers, nationwide). In addition of the activity normally performer by its SME officers, NBE produced special promotional brochure<sup>7</sup>.

#### **Technical assistance bodies**

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<sup>6</sup> Italian cooperation credit line for Egyptian SMEs, summary of the status of the concluded applications, UNIDO 30/09/2007.

<sup>7</sup> Interview with Mr. M Shawky, Credit Line and Products development unit SME division- NBE, April 2013.

As already mentioned, the main technical assistance body involved in the project was the UNIDO - IPU (Investment Promotion Unit), which was functioning under the UNIDO-ITPO<sup>8</sup>. UNIDO-IPU has been functioning in Cairo from 1998 to the end of 2009 (up to the end of 2008 with Italian funds, after continuing its activity with own resources). The main function of the UNIDO-IPU was to provide assistance to GAFI, the Egyptian body for promotion of investments. Thus, the activity for promoting the credit line was carried out by UNIDO-IPU mainly in the framework of its assistance to GAFI.

After the closing of UNIDO-IPU, a limited technical assistance and communication role was assumed by the Italian UTL, mainly through the engagement of experts in supporting NBE and in the organisation of communication events (3 seminars have been carried out in different parts of Egypt).

## Enterprises

Private enterprises have been involved as “beneficiaries”. As seen, just 12 enterprises obtained loans through the project.

## 5.2. Evaluation results

### 5.2.1. Relevance

Micro Small and medium enterprises (SME) make up over 99 percent of private enterprise in Egypt and account for 85 percent of non agricultural private sector employment and almost 40 percent of total employment. SME have been the primary absorber of labour force entrants over the past decade and contributes significantly to employment generation, albeit most of it is of an informal nature. These enterprises are also the major provider of products and services for local markets, particularly lower income segments with limited purchasing power<sup>9</sup>.

The growth in the SME over the past decade has been annually about %4. Nevertheless, SMEs are still highly vulnerable: in fact, the average Egyptian MSME has only 2.3 workers, and almost three quarters of all private enterprises have fewer than three employees. Over 80 percent of micro and small enterprises are informal enterprises, with low value-added low production quality, and poor export performance<sup>10</sup>.

SMEs are subject to a legal and regulatory framework that is cumbersome, bureaucratic and that is not sensitive to their operating realities. They do face other constraints, including difficult access to formal financing, financing schemes that are often inadequate and do not take into consideration the nature of their business, business development services, markets and market linkages, information technology, skilled labour and adequately priced inputs.

Lack of credit – and particularly formal credit, with affordable cost - often limits SME from growth. Small manufacturing firms are more than twice as likely as large ones to find themselves as seriously constrained by access to finance<sup>11</sup>. An analysis of enterprise data for the 2009 World Bank, Investment Climate Assessment (ICA) found a positive relationship between firm efficiency (defined by high capacity utilization) and access to working capital finance (access to overdraft facility). The analysis also showed that firms employment growth is strongly related to access to both working capital and investment finance.

In the 2004 Poverty Reduction Strategy, the GoE reinforced the importance of job creation along with its commitment to SME development. This commitment has been further translated into key policy initiatives in recent years such as the passage of the Law (which provides the legal basis for the promotion of SMEs and designates the Social Fund for Development as the coordinating agency for the GoE) and the Development of a National SME Strategy. Despite these gains, SMEs face a wide range of obstacles to increasing their competitiveness including a complex regulatory environment, limited access to financing, poor quality services and limited access to technology.

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<sup>8</sup> ITPO is a programme funded by Italy. In the framework of the programme, other IPUs were created in the following years in Morocco, Tunisia and Jordan

<sup>9</sup> International Finance Corporation (IFC). *EGYPT: Market Assessment of the Need of Micro and Small Enterprises, September 2009.*

<sup>10</sup> Business Development Services Support Project (BDSS)-Project Implementation Plan, 2004.

<sup>11</sup> OECD Publishing, OECD SME and Entrepreneurship Outlook- 2005 Edition, 2005



Providing support to SME by facilitating their access to credit seems therefore to be highly relevant in the Egyptian environment.

A specific obstacle in access to credit is also its high cost. Actually a major attraction factor for the Italian soft loan credit line, is the low the interest rate in Egyptian context, which make about 50-60% of an average interests rate in normal commercial bank for similar loans<sup>12</sup>.

Despite the low cost of the money provided by the Italian project, however the NBE preferred to maintain a low risk through the request of collaterals. Such approach hindered the opportunity to invest in emerging business and start-ups<sup>13</sup>.

On the technological side, enterprises had through the Italian credit line the opportunity to introduce new and modern technology in their sector, allowing the scaling up of production capacity; the improvement of products quality; and an enhanced capacity to compete in local markets. This appears to be particularly true in the sectors in which the companies applying for the Italian credit line are engaged: furniture, marbles, bricks and packing. As a fact, a further factor in the choice for Italian machinery was for some of the companies involved in the project the fact that they already were using machinery from Italy and already had contacts

However, often capacity to adopt innovative technology is actually reduced by the lack of qualified personnel and by the lack of training and technical assistance opportunities.

**In conclusion:** The project seem to have some elements that make it very relevant for the local environment, such as the target groups (SME), the possibility to facilitate access to Italian machinery and technology, the low cost of credit. Hower project relevance was limited by the fact that procedures and modalities for reducing risk by the bank did not change (they continue to ask for collaterals) and by the lack of technical assistance and opportunities for supporting capacity building and qualification in involved enterprises.

	Strengths	Weaknesses
<b>Rilevanza o pertinenza</b>	<ul style="list-style-type: none"> <li>• identification of the target group</li> <li>• low cost of credit</li> <li>• support to innovation through Italian technologies</li> </ul>	<ul style="list-style-type: none"> <li>• use of collaterals to reduce risk</li> <li>• lack of support for “start up”</li> <li>• lack of technical assistance and training for enterprise development</li> </ul>

### 5.2.2. Validity and quality of the logical framework

While Italian Cooperation puts considerable emphasis on sharing its experiences, it has not necessarily been consistent in identifying, measuring, and analyzing results generated through its projects and overall Program. Actually, a clear logical framework seems to be lacking.

Consequently, while the Italian cooperation programme managers seem to have a clear vision of the programme overall, such vision has not been shared in a formalised way with project partners.

Factors that contributed to such a situation include:

- the lack of an overall results framework for the Program on SME development makes it unclear what results are being targeted
- the projects, while providing extensive information on Performance activities undertaken during the years, have limited reporting on actual results achieved—beyond those activities.
- The current trend to focus on the broader “employment” agenda, not just SME development, which has been recently assumed by the programme because of its linkages with the “Social Development Fund” credit project, also funded by Italy.

<sup>12</sup> Enterprises interviewed during the evaluation, did confirm the low interest rate as the major reason for their interest in getting access to the loan.

<sup>13</sup> The only case of a start-up represented by the firm “Al Badry”, which is also relevant to environmental protection and recycling (thus meeting all the criteria for accessing the credit line), was subject to the condition of presenting cash deposit as collateral equal to the amount they requested.

- The lack of specific actions aimed at identifying and at presenting results, or at confronting them with previous conditions (no baseline data; no monitoring reports – out of the reports following the missions of experts that have been involved of defining the perspectives for improving the management of the project after UNIDO withdrawal).

As a result, in project management, it proved difficult in the framework of project management to:

- assess progress made towards the Program results;
- assess decision making and trade-offs in project implementation;
- interact in a strategic way with other programmes and projects;
- avoid to carry out the programme activities according to a one defined strategy, so to increase their cumulative impact.

**In conclusion:** The project has not a well formalised logical framework. This actually implies many limits and difficulties both in project management and in project evaluation. The lack of well defined objectives and expected results has been an obstacle for defining a shared strategy concerning the use of the credit line.

	<i>Strengths</i>	<i>Weaknesses</i>
<b>Logical framework</b>		<ul style="list-style-type: none"> <li>- Lack of a defined logical framework</li> <li>- Lack of well formulated objectives and expected results</li> </ul>

### 5.2.3. Effectiveness: results expected and unexpected results

Just after the setting of the IPU a soft loan project was launched by Italy (1999), with little success.

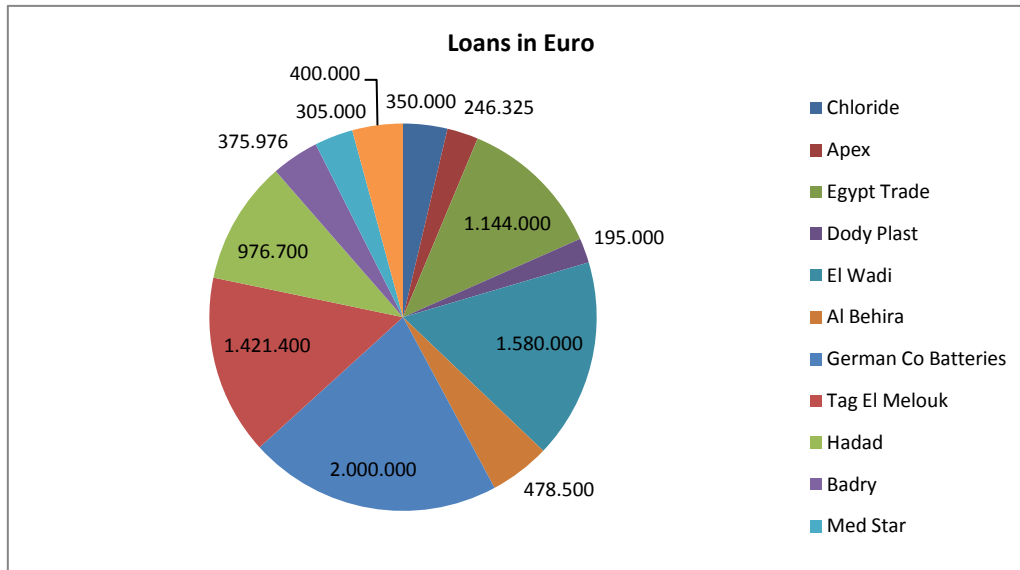
The idea of the credit scheme was to strengthen the banking sector also promoting competition among banks, therefore the credit scheme was expected to be channelled to enterprises by a number of commercial banks, and however they had to pass any way through the National Bank of Egypt. The NEB was authorised to charge a fee to the banks. There was not therefore any strong convenience from the Banks to use the Italian money (that was moreover linked to tied loans for acquiring Italian goods or technologies).

Such a situation led in 2006 to change the design of the credit scheme, choosing only one bank as channel for funding enterprises.

As it has been said almost all the available resources were engaged and disbursed to enterprises, but just 12 enterprises were supported through the credit, while a wider number was involved in preparing “investment projects” that have not been funded.

If from the perspective of engaging funds the project – and the choice to channel the resources through a single bank - can be said to be effective, from that of “supporting private sector development” or supporting SME, the same cannot be said: actually little support was provided at sector level, both as regarding the possibility to promote changes in the credit system (in fact, despite the features of the credit, NBE continued to use its “traditional” modalities to evaluate risks and enterprises; and other banks were not involved in testing the new tool) and as regarding the possibility to promote the SME development (actually, as in the table below is apparent, the companies involved in the project are not “small” and are in a number that is very limited).

Figure 68: Loans in Euro



As in the figure, about %50 of the total amount available at the credit line was engaged with just 3 enterprises, while 60% of the total was engaged in supporting four SMEs. Actually NBE adopted an approach based on the advantages of providing large loans to few enterprises (thus reducing risks, transaction cost, management cost etc.) rather than small loans to many SMEs (that would require higher risk and higher transaction and management cost).

While a function towards the enlargement of the access to credit by a greater number of enterprises was played by UNIDO-IPU, such a function did not work so well, since most involved enterprises actually did not had access to credit (only in the case of 6 loans - delivered in 2007, 2008 and 2010 – an active role of UNIDO – IPU is clearly emerging).

While the funding of the acquisition of Italian technology and machinery has been identified by most actors as a relevant choice in Egypt (see above), the need to purchase them in Italy (thus without passing through Egyptian intermediaries or companies) and the need to purchase “new” equipments, are likely to have influenced project results: directly contacting Italian suppliers tend to be difficult for Egyptian companies and to require an effort and a cost (both in terms of resources and time) that is very high; purchasing “new equipments” involves an increase in the cost of the equipment itself.

Factors related to the low effectiveness of the project in support SME, include:

- The sealing of the loan with a minimum amount of 150k Euros, as well as the use of the European definition for SMEs, which hindered the opportunity to offer access to credit to most SMEs and the opportunity to support more enterprise projects.
- The upper sealing of the loan to a maximum of 2 million Euros, resulted in the engagement of the total available amount in a limited number of loans for a small number of companies (as in the table below, about 50 % of the whole amount was engaged with just 3 enterprises).
- The NBE approach of considering almost no risk at all limited the chance to give opportunities to new and diverse number of clients;
- The lack of limits to the loans to be provided to the same firm under the loan concentrated the use of funds towards a small number of enterprises;
- the fact that NBE ended up to manage the entire credit line, did limit the access to the NBE clients only and excluded about 67% of the total SMEs community, which use the other banks in Egypt;
- the lack of requirements concerning the use of collaterals and other procedures for risk reduction resulted in the choice of the NBE to support few “safe enterprises”, thus reducing the cost of procedures for the bank and reducing the effectiveness of the project as a tool for SME development;

- the need to purchase “new equipment” that increased the cost of machinery and the dimension of investments, thus reducing access for smaller enterprises;
- the limited technical capacity of NBE officers, that resulted into the refusal to fund some projects requiring relatively complex arrangements (such as divide a whole investment into separate lots, so to fund with the Italian credit line the parts admitted and to fund through other opportunities the others);
- the unclear relation between the TA functions of the UNIDO-IPU and the functions of the bank, which resulted in many “aborted” investment projects and loans.

Regarding the project effectiveness, it is necessary to underline the relevance of the political disorder which characterised Egypt from the beginning of 2011. The people uprising and the fall of the regime led by President Mubarak implied a situation in which economic activities slowed down, when they did not stop. This situation involved both the private sector (which also seen for a certain period the blocking of foreign devise operations), the credit institutions and the public sector (including the CBE).

**In conclusion:** Despite the fact that almost the totality of resources have been engaged, the project effectiveness is low when considering the engagement of SMEs and their development or when considering innovation in the credit system. Few enterprises have been using the loans and mostly they were already in condition to access credit.

	Strengths	Weaknesses
<b>Effectiveness</b>	<ul style="list-style-type: none"> <li>- engagement of funds</li> <li>- access to Italian technology</li> </ul>	<ul style="list-style-type: none"> <li>- little number of enterprises</li> <li>- little change in bank procedures/functioning</li> <li>- little support to new business</li> <li>- little diffusion of new (Italian) technologies</li> </ul>

#### 5.2.4. Efficiency

Efficiency of the project can be seen from different points of view:

- Based on the efforts related to the engagement of UNIDO – IPU, and to the fact that some of the original choices had to be revised and re-negotiated efficiency from the perspective of the Italian cooperation does appear to be low; efficiency is very low from this point of view also when comparing the global cost of the project with its actual results (technology improved in 11 companies);
- Efficiency of the project action appears to be low also from the perspective of enterprises: their need to provide solid collaterals did not change and they were obliged to engage in a cumbersome process for purchasing new technologies; moreover, it is not easy to define to what extent the purchase of technologies under the conditions provided by the credit regulations is competitive; finally the duration of procedures and delays in the approval of credits related to the different bureaucratic passages (through UNIDO-IPU, through the bank, through the Italian cooperation, etc.)<sup>14</sup> clearly reduce the efficiency of the process itself.
- On the other side, when considering the NBE approach to the provision of credit the efficiency can be considered hi (in fact, transaction, development and management costs are kept low by maintaining a limited number of large loans).

**In conclusion:** Efficiency of the project can be seen from different perspectives. However, in general, it appears low. As a fact, the project implied a big effort in terms of technical assistance, but produced little development effects. Moreover, also from the point of view of involved enterprises efficiency suffers of the delays due to bureaucratic processes. Also considering the global investment against the limited effectiveness efficiency is limited.

<sup>14</sup> In some cases, enterprises renounced to wait for the approval and disbursement of credit and purchased the equipments using other funding sources (it is for instance the case of Tag El Melouk. This enterprise perhaps already had two loans by the bank in 2011, for a total of about 900.000 Euro.

	Strengths	Weaknesses
<b>Efficiency</b>		<ul style="list-style-type: none"> <li>- Technical assistance efforts if compared with results</li> <li>- Bureaucratic procedures producing delays</li> <li>- Investment in comparison with results</li> </ul>

### 5.2.5. Sustainability

As for the efficiency, also sustainability can be seen from different perspectives.

Sustainability of the credit mechanism set up by the project is low: in fact, the technical assistance cost is not covered by the revenues from credit, and there is not a revolving mechanism that would allow the resources returning from the loans to be reinvested in new loans.

The NBE on her side is not investing in enlarging the credit line, so also from the perspective of the bank it seems that the credit line has not any sustainability.

Sustainability of investments by the involved companies is high, based on the business plan presented to the bank and to the low interest rate applied to the loans.

**In conclusion:** While investments by the involved enterprises are normally rentable and sustainable, also thanks to the low interest rates applied by the NBE; the project itself has a limited sustainability: neither an exit strategy was designed, nor mechanisms for providing continuity to the project were set. A first evidence of such a situation is the fact that the TA provided by UNIDO-IPU was not substituted by other supporting services for SME.

	Strengths	Weaknesses
<b>Sustanaibility</b>	<ul style="list-style-type: none"> <li>- Enterprises investments are based on business plans considering their duration</li> </ul>	<ul style="list-style-type: none"> <li>- Exit strategies are not defined</li> <li>- NBE is not making investments to provide continuity to the project</li> <li>- TA is not more available, and enterprises have not been able to support it by themselves</li> </ul>

### 5.2.6. Impact

The fact the project has very attractive low interest rate in comparison to existing ones in the local Egyptian markets, encouraged involved business to develop new products and expand their business, regardless the instability and economical recession. Almost all involved enterprises took advantage over the credit opportunity, with two results: the possibility to use their own accumulated resources for alternative uses, and starting up new activities and productions.

In about half of enterprises visited, new employment opportunities have been generated, in some cases with a differential gender impact: in fact, almost 50% of the loans have been provided for food industry, which is strongly characterised by the employment of young women employees, mostly with basic level of education. Not only the increase of employed women has been observed in the enterprises, but also introduced innovations generated new opportunities for enhancing workers' skills.

New products have been introduced thanks to the loan in half of the funded companies, while the majority of them (8 over the 10 consulted) have developed and got access to new markets.

Other impacts reported by visited and interviewed enterprises include:

- The increase of the annual budget of their business (however this is not generalised, at least 2 enterprises in fact seem to be affected by a decrease in their annual cash flow);
- The increase of the company capacity to keep financial records; apply inventory control measures, etc.
- The increase of the company capacity to access information on market, products and standards;
- The increase of the capacity to identify potential business partners;

- The increase of productivity and decrease of production cost (energy, unskilled employees, etc.)

The main limit from the point of impact is related to the little number of enterprises involved in the project and to the lack of involvement of further actors related to entrepreneurial world. As a fact, changes have been reported as regarding the individual companies, but not as being spread – in the short time passed from the starting of the project – on the wider environment.

A further weakness concerning the impact of the project concerns the lack of impact on the NBE capacities and activities: NBE procedures for risk analysis didn't change taking into account the experience of the project or the work carried out by UNIDO in "investment promotion" and analysis.

Lack of a visible impact on GAFI (as it would be the establishment of linkages with NBE and other banks to facilitate access of SME to credit) is another weakness that is necessary to point out. Considering the "implicit" objective to open the credit market, the project produced a very limited impact (as NBE has maintained the control over the financial resources of the project). Such a limited impact was considered as a starting point for the formulation of the new Italian credit line in favour of Egypt, which has been allocated to the Social Fund, instead than to the CBE and NBE.

A further element to be pointed out is the limited impact on the international actors supporting SMEs: little information and knowledge produced through the project have been formalised and diffused. Nevertheless the EU based on the Italian experience decided to avoid involving NBE and to set up a guarantee fund associated with their credit activities.

**In conclusion:** While the impact of the project on the 10 involved enterprises seems to be high, since it include changes in several areas of company life and in its capacity to control its environment; the general impact of the project seems to be – at present time, that is after a short period after the disbursement of funds – quite limited. Moreover two impacts that would be likely - such as the introduction of innovative practices in the banking system and the establishment of new relationships among entities providing assistance to the enterprises and the banks or credit institutions – didn't emerge.

	Strengths	Weaknesses
<b>Impact</b>	<ul style="list-style-type: none"> <li>- Impact at company level on production, technologies, capacities, employment conditions</li> <li>- Job creation, particularly for women</li> </ul>	<ul style="list-style-type: none"> <li>- Lack of impact on the credit system</li> <li>- Lack of impact on the actors providing TA to enterprises</li> <li>- Lack of impact on the enterprise environment</li> <li>- Lack of impact on actors supporting SMEs and on their actions</li> </ul>

### 5.2.7. *Visibilità*

Actions aimed at fostering project visibility include:

- Individual visits to companies by the UNIDO and GAFI officers, in the framework of the UNIDO-IPU activity (in these meetings, the Italian credit scheme was presented when relevant);
- Meetings with customers by the BNE, introducing the Italian credit scheme when customers were interested to Italian products;
- 3 public meetings organised by the Italian Cooperation Local Technical Unit (UTL);
- Publication of a "brochure" presenting the project by the UTL;
- Publication and dissemination by the BNE of a "brochure" presenting the credit scheme;
- Presentation of the credit line in the framework of sector visits and sector meetings organised by the Italian institute for foreign trade (ICE) with local and Italian entrepreneurs.

Though the project has been running for long time it has low visibility, beside the limited number of proactive actions taken by the Italian cooperation UTL and the brochures produced by NBE (which are not more available), there is not any evidence of activities directed toward the engagement of media and for outreaching the wide public.

**In conclusion:** Information was mainly diffused through direct/informal communication. Few activities were carried out to reach the general public and to engage other actors in the entrepreneurial/economic world. As a consequence visibility of the project out of the few actors directly involved in it is limited.

	Strengths	Weaknesses
<b>Visibility</b>		<ul style="list-style-type: none"> <li>- Lack of media actions and public communication campaigns</li> <li>- Information dissemination mainly through informal and direct channels</li> </ul>

#### 5.2.8. Implementing mechanism functioning

The project agreement paid special attention to the management and monitoring of the project during the implementation phase by providing for the establishment of a steering committee consisting of representatives of all actors involved in the management of project actions (but without representatives of enterprises or entrepreneurial associations – as a fact, there is not any evidence of the involvement of entrepreneurs in the management or monitoring of the project).

The committee met mainly at the beginning of the project, however not in regular bases. The prevalent focus of the committee has been on:

- disbursements made;
- loans in the pipe line;
- promotion activities.

Little attention was devoted to problems, major challenges or lessons learnt, as well as on cooperation and coordination with other projects.

The little control capacity exercised by the steering committee was further increased by the lack of a formalised Monitoring and Evaluation procedures, allowing for analysing emerging issues and the advancement of the project.

UNIDO – IPU played a key role in the project, providing support to entrepreneurs and companies with a focus on SME development rather than on “selling a credit product”. However, the work of UNIDO-IPU has left little marks on the way the project was managed after the finalisation of UNIDO – IPU support.

Moreover, while the effectiveness of UNIDO – IPU support to the credit line functioning does not appear to be high (and such role has been questioned during project implementation), it has not been matter of any special analysis: it is therefore not clear if the action of UNIDO-IPU was relevant and effective or not in supporting to the SMEs, and if the little number of loans which resulted from the project is related to the functioning of the UNIDO – IPO or to the special features of the project (i.e. dimension, focus on Italian technology, involvement of NBE, etc.).

In fact, memory of activities and actions is accumulated in personal archives and it depends very much by personal perceptions and perspectives, rather than being formalised and shared through any “public document”.

After UNIDO close the Italian cooperation UTL took over the TA function for limited time. UTL role was mainly limited to promotion activities. Actually the UTL tried to assume a stronger and pro-active role, both in providing assistance to enterprises and in guiding the project according to a more strategic approach. In assuming such role, however, the UTL suffered of the lack of resources (some short term experts have been involved, but without the possibility to set up a real technical assistance unit for managing the project and taking over the role played by UNIDO).

By the end of 2011, NBE assumed a direct role in supporting the potential customers in formulating business plans and handling loan submission. However, the TA role is somehow in conflict with that of lending institution.

**In conclusion:** While the funding agreement provided for clear roles and management structures, these proved during the project implementation to function only partially. The management committee itself mainly focused on one only aspect of the project, while a growing gap started to emerge among stakeholders (particularly between UNIDO-IPU and NBE). Following the finalisation of UNIDO-IPU engagement in the project, roles have been somehow re-defined, but without taking into account the need of separation between the TA provider and the credit provider. The Italian Cooperation Office played a key role particularly after the end of UNIDO-IPU collaboration, but had not resources to play a more active role.

A further critical element in the project management was the lack of involvement of enterprises or enterprise associations and their representatives.

	<i>Strengths</i>	<i>Weaknesses</i>
<b>Implementing mechanism functioning</b>	<ul style="list-style-type: none"> <li>- Initial design of role attribution</li> <li>- Decision to engage a TA provider to support enterprises</li> </ul>	<ul style="list-style-type: none"> <li>- little relevance of management committee work</li> <li>- lack of effective monitoring and evaluation</li> <li>- mixing of TA /lending roles</li> <li>- lack of capacity of the UTL (despite efforts)</li> <li>- lack of coordination and shared vision among stakeholders</li> <li>- lack of involvement of beneficiaries</li> </ul>

### 5.3. Lessons learnt

A number of lessons have been identified based on the experience of the project.

- The Project has worked at both the governorate and national levels, and with SMEs directly, institutions providing services to SMEs (Capacity building and Finance), and ministries and institutions involved in SME policy making. Linking practical experience at the local level with national policy development at the centre can offer an effective model for SME development.
- The size of the donor program does not determinate his leverage in a sector, particularly in a setting as the Egyptian one, which is characterised by geographic and social differences. More important than size are the qualitative and innovative features a program in dealing with key development issues. In this case, the mismatch among some project features (i.e. requisites for SMEs, AT, credit approval procedures, communication, etc.) reduced the capacity of the project to produce an impact wider than direct effects.
- The project suffered of the lack of knowledge production at project start: neither a baseline survey, nor specific feasibility studies were carried out. A sound knowledge base is necessary to gain credibility; building partnerships and networks broadens engagement and fosters opportunity. The lack of knowledge base also generate difficulties in monitoring and evaluation of activities.
- Sustainability issues need to be integrated into programming from the start. Some key lessons on sustainability success factors have been identified within the Project, including the following: commitment of partners to sustainability, integration of sustainability into planning and implementation of interventions, an emphasis on organizations and services rather than project activities, and staffing that encouraged individual commitment to institutions and to the services they deliver.
- Crosscutting themes are important elements within the project (employment, working conditions, gender, poverty, environment, innovation, etc.), however there was not a specific strategy to deal with them, thus the potential impact of the project was reduced. Specific strategies need to be defined in order to increase impact and make the most of credit project on crosscutting issues, identifying relevant processes, defining targets, providing for specific measures and resources.
- Stakeholders were not fully integrated in the management of project. And some key stakeholders – such as the entrepreneurs - have not been involved at all in the steering and management of project actions. Moreover, there was not an analysis of the specific interests each actor could have in relation to the project. This situation led to a limited effectiveness in the activity of certain actors, to potential conflicts among actors, to the confusion among roles, etc.. Credit projects are not just “the provision of funds” and therefore require a clear stakeholders analysis in order to build up relevant management and steering mechanisms.



- Steering and management role by the UTL and by a special project management unit are a key element for project functioning. Resources should therefore be attributed to this aim, avoiding projects “running on their own foot”.

#### 5.4. Recommendations

On the basis of the evaluative analysis the following recommendations can be formulated.

- Logical framework and expected results should be defined in a clear and measurable way, in order to maximize the results over the next few years and more clearly convey its vision to projects and partners.
- Strategies should be defined concerning the processes the project should influence, in this framework it is also necessary to take into consideration crosscutting themes for supporting the SME development agenda.
- Enterprise and enterprise associations’ representatives should be involved in the design of projects, as well as in the steering mechanisms so to assure that interests of credit institutions and of public bodies are matching with those of enterprises. Enterprises have to be considered as an actor in the project rather than as a passive “beneficiary”.
- Credit and SME development actions cannot be only focused on individual SME, for widening the impact of actions it is necessary to interact and strengthen the networks among SMEs and other stakeholders and among the projects promoted by different donors and partners.
- Knowledge accumulation and dissemination is a way to increase impact of projects, including in the credit sector: good and relevant practices should be formalised, recorded and disseminated so to foster replication.
- Credit should be dimensioned according to absorption capacity: this would probably require the definition of lower amount to be indicated as minimal dimension for loans (50K euro ?)
- In order to increase impact on job creation, a share of available resource should be devoted to funding new enterprises and start up (otherwise these enterprises that have an higher risk profile than most others would not easily be funded)
- Measures should be identified to be sure having diverse clients, size, areas of operation and geographical location, in coherence with the general strategy of the project
- The involvement of diverse Banks handling the credit/ soft loans for the SMEs can be a tool for increasing effectiveness and efficiency and for enhancing competition and improved service: this requires to identify specific measures for making the “involvement” in the development credit activities interesting and profitable for the identified banks
- Measures should be identified for facilitating access to credit, by reducing the tendency of banks to protect themselves from risk asking for collaterals: in this framework different solutions can be tested, from guarantee funds to the obligation to use innovative risk analysis approaches and methodologies
- Definition of target enterprises have to be adapted to the local setting, avoiding the adoption of models and categories developed in other regions or settings, which risk to have distortive impacts.

## 6. ELEMENTS FOR A COMPARATIVE ANALYSIS OF THE CREDIT AID INSTRUMENT

### 6.1. Some considerations on methodology

Although credit aid is a well-defined procedure for cooperation, with its special characteristics and established functional mechanisms, it is hard to make a methodological comparison of the three projects analysed in this report. Given the **differences** in the political and institutional context, the features of the economic systems and last but not least, the size of each country involved require us to proceed with caution.

Although comparison can be made, it requires **reference dimensions and standard reference conditions of reference**, something that the three projects, because of the profound differences, cannot guarantee. On the other hand, we should avoid the opposite methodological risk, i.e. affirming the absolute singularity of each project which, being unrepeatable and based on their own, exclusive frameworks, cannot even be analysed with regard to repeatability and the possibility of identifying some general aspects such as best practices.

Considering these two methodological limits, the mission has thus opted for making “**positive comparison**”. This is an operation that, starting from the positive experiences of each project and the constant factors observed in collective behaviour and phenomena regarding the protagonists involved, as well as the implementation mechanisms adopted, identifies the ingredients or **pre-conditions forming the basis for the success** of a development cooperation project based on credit aid procedures.

Naturally, it should be pointed out that this evaluation, based only on the results of the assessment of three projects for countries in the same geographical area, must only be considered as **partial**, since this analysis does not include elements related to other economic, geographical, political and institutional contexts.

Finally, it should be recalled that the comparative analysis discussed in this chapter, and in particular in the paragraph following, **does not question the reality that has emerged from the assessment**. In this regard, we cannot forget that out of the 3 projects analysed, the one for Tunisia, despite a few critical aspects, should be considered as excellent, while considerable problems emerged in Egypt, throwing serious doubt on the pertinence and coherence of the measure. As for the project in the Palestinian territories, it has unfortunately been impeded because of fundamental contradictions related to a poor feasibility analysis during the formulation phase and a low pertinence, despite the revision recently applied. Further reflection will probably be required to determine whether it is worthwhile to continue on a path where the outcome is likely to be negative.

### 6.2. The conditions for success

For each of the three projects, the assessment analysis has enabled us to make specific recommendations and to identify the lessons learnt that could be valuable for the future. These reflections, contained in three chapters, each one covering a project, have been useful for undertaking “**positive comparison**”, in order to identify some conditions for success, as described below.

- **The Logical Framework.** Far from wanting to make the Logical Framework into an untouchable solution for all problems, no one can deny that when it is not well defined, there are often problems regarding the direction that the project must take. Any project, in fact, needs strategies for accompaniment; and before formulating and implementing these strategies, the objectives and results must be determined in advance. Perhaps this applies more to the other basic measures of credit aid, which involve the combination of many aspects and protagonists. The Logical Framework should therefore not be considered as an annoying bureaucratic formality, but rather as a key instrument for determining the application of the project in all of its aspects, such as planning, the measuring of its effects, the comparison with the initial hypothesis related to the political, institutional and economic context, and the monitoring of the activities through effective indicators.
- **The pertinence of the credit aid.** The procedures for the credit aid cannot be the solution for all the problems of the SMEs for at least two reasons. The first one is that very often, the small and medium size enterprises, as in some countries where the Italian Cooperation has promoted these types of projects (for example Palestine and Egypt) have a highly informal character which is hard to reconcile with the credit aid

instrument, often conceived for support to larger enterprises that already have relations with the banking system. The second reason, on the other hand, is due to the fact that the pertinence in using credit aid is related to the liquidity requirements of the credit market. This condition is often not sufficiently taken in consideration since there are countries that effectively suffer from this problem (such as Tunisia) and others (such as Palestine) with a large excess of liquidity deposited in the banks without it being used to benefit the enterprises.

- **The real interest on the part of the banks.** The actions of the banks are a decisive factor for the success of credit projects based on credit aid. They can be real protagonists playing a fundamental role in strengthening and accompanying business capabilities, or adopt a conservative approach that is not suited with a development initiative. If loans are granted only to those able to provide collateral surety (in some cases through cash deposits for the same amount as the loan), and not to those who might submit good projects that could, for example, generate new employment and promote technological innovation, the project actually has no reason to exist. The banks acting as intermediary protagonists in the credit aid project must not be allowed a near monopoly (as in Palestine) or complete monopoly (as in Egypt) basis; there should be a number of intermediaries, firmly rooted in the local context, also in order to guarantee some degree of geographical balance.
- **The existence of a favourable context.** A credit aid project requires a favourable context between Italy and the beneficiary country, with regard both to trade and to the existence of consolidated economic and cultural relations between the two countries. This means that the clause requiring the use of most of the loan to purchase Italian machinery and technology cannot operate in the same way in all the countries. If the two countries have more relations, as well as homogeneity in the economic and industrial sectors (for example, the types of crops for the agro-food sector), it will be more interesting for the enterprises of the beneficiary country and the Italian suppliers to contact one another. In this regard, it is undeniable that one of the reasons for the great success of the project in Tunisia lies in the close trade relations with Italy, while one of the problems in Palestine is the absence of significant trade links between the two countries.
- **The attractiveness of Italian products.** Even when there are close trade relations between Italy and the beneficiary country, Italian machinery and equipment are undeniably more expensive than those from the emerging countries, such as those in Asia. In this regard, Italian products are compatible with quality production by the enterprises in the beneficiary country, and with investment repayment over the medium or long term. When these conditions are lacking, for example in countries characterised by significant political or institutional instability, or by severe limitations on the circulation of goods and persons (as in the case of Palestine), investments financing will tend to be planned over the short term, and the repayment period will necessarily have to be free from risks and contingencies related to the local context.
- **The status of the enterprises.** In the credit aid projects, the enterprises are considered as beneficiaries and not as active protagonists. This limiting rule can prevent the active involvement of the enterprises and the intermediate organisations (chambers of commerce, professional and employers' associations etc.) in the formulation of the programme, with sometimes paradoxical effects on the definition of the characteristics of the funding available through the measures, which can be too severe in the context of small and medium size enterprises. Instead, a credit aid project should be suited to the specific situation of the SMEs of each country, without mechanically and uncritically adopting the operational concepts of small and medium size enterprises in the EU, which are quite distant from the reality in many countries benefitting from these types of measures. The transition from beneficiaries to active protagonists must also regard the implementation phase of the project, and in particular the application of restrictive and conservative criteria by the banks that often make access to credit impossible for enterprises that do not already have consolidated relationships with the banks.
- **The function of Technical Assistance.** A credit aid project involves the involvement of a range of protagonists having interests that may sometimes be diverging, especially without the definition of a way of acting and shared objectives, with the government institutions, the banks, the beneficiary enterprises, the employers' associations, the Italian companies etc. In this context, Technical Assistance, as a third party, can facilitate and accompany the various protagonists in a common path, which is set down by the project in all its phases. In order to play this role effectively, Technical Assistance must have adequate resources.
- **Promotional activities.** A credit aid project must take a series of effective measures to ensure the grassroots, transparent dissemination of information on the opportunities for access to credit by the SMEs.

The dissemination of information must also involve the employers' associations – because of their capacity for contact and communication – and the banks, which play a decisive role not only as operational protagonists but also in the correct interpretations of procedures for applications, approval and paying out of the funding provided by the project.

- **Monitoring.** A credit aid project cannot be limited to making resources available while the achieving of the desired goals is left to the automatic operation of the procedures. The experience acquired up to now has, in fact, shown that Technical Assistance cannot be limited to the initial phase, for example by conducting promotional activities, and to supervision in the analysis of loan applications. The enterprises must also be accompanied in the phases after the loan is paid out, both for training in the use and maintenance of the new machinery, and in the management of the loan repayment plans. In this regard, the correct and adequate application of the grace period of the loan, as well as its duration, are issues coming within the monitoring tasks of Technical Assistance.
- **Capitalisation and production of knowledge.** Technical Assistance, supported by other resources, for example experts on short term missions, must provide an activity of capitalisation of the project results aimed at the production of knowledge. This task is indispensable for the action of the piloting function and the orientation of the credit aid projects, as well as forming the basis for the eventual continuation or extension of the projects.
- **Orientation and piloting of the project.** The credit aid projects must be accompanied by the formulation of strategies and decision making based on adequate knowledge regarding the context where the measures are applied and the dynamics and results produced by the project (through ongoing monitoring). In this regard, the function of the management organs of the projects cannot be limited to the mere statistics of the funding granted, but must also regard the effects and impact of the measures on the business reality and the social and territorial context.

## ANNEXES

### ANNEX 1 TERMS OF REFERENCE



## MINISTERO DEGLI AFFARI ESTERI

*DIREZIONE GENERALE PER LA COOPERAZIONE ALLO SVILUPPO*

*Ufficio IX  
Sezione Valutazione*

### TERMINI DI RIFERIMENTO PER LA VALUTAZIONE INDIPENDENTE CREDITI D'AIUTO:

**“Linea di credito in favore delle piccole e medie imprese tunisine”  
Tunisia**

**“Programma di sviluppo del settore privato a sostegno alle piccole e medie imprese  
tramite il sistema di Private Banking Palestinese”  
Territori Palestinesi**

**“Programma di supporto alle piccole e medie imprese”  
Egitto**

**MINISTERO DEGLI AFFARI ESTERI**

**DIREZIONE GENERALE**

**PER LA COOPERAZIONE ALLO SVILUPPO**

**TITOLO DEL PROGETTO: "Linea di credito in favore delle piccole e medie imprese tunisine"**

**LUOGO DEL PROGETTO:** Tunisia

**LINGUA DEL PROGETTO:** Italiano, Inglese

**DURATA:** 24 mesi

**BUDGET: EURO 36.880.000,00**

A CARICO DELLA DGCS: EURO 345.000,00 A DONO

A CARICO DEL MINISTERO DELL'ECONOMIA: EURO 36.500.000,00 A CREDITO

A CARICO DEL GOVERNO TUNISINO: EURO 35.000,00

**TITOLO DEL PROGETTO: "Programma di sviluppo del settore privato a sostegno alle piccole e medie imprese tramite il sistema di Private Banking Palestinese"**

**LUOGO DEL PROGETTO:** Territori Palestinesi

**LINGUA DEL PROGETTO:** Italiano, Inglese

**BUDGET: EURO 25.422.250,00**

A CARICO DELLA DGCS: EURO 25.000.000,00 A CREDITO

A CARICO DELLA DGCS EURO 422.250,00 A DONO

**TITOLO DEL PROGETTO: "Programma di supporto alle piccole e medie imprese"**

**LUOGO DEL PROGETTO:** Egitto

**LINGUA DEL PROGETTO:** Italiano, Inglese

**BUDGET: EURO 10.033.372,00**

A CARICO DELLA DGCS: EURO 10.033.372,00

### **1.a) Obiettivi del progetto: TUNISIA “Linea di credito in favore delle piccole e medie imprese tunisine”**

Il programma è stato finanziato dal Ministero dell’Economia e delle Finanze su proposta della DGCS ed implementato dalle banche commerciali della Tunisia, dalla Banca Centrale di Tunisia, che autorizza i pagamenti, e dalla stessa DGCS tramite l’UTL di Tunisi.

Lo scopo generale del programma è di contribuire al raggiungimento degli obiettivi dell’XI Piano di sviluppo della Tunisia in termini di PIL/abitante e di occupazione.

Nello specifico l’iniziativa riguarda la promozione dell’investimento privato tramite la mobilitazione di risorse esterne speciali. Essa si è articolata in interventi volti alla modernizzazione o alla creazione di imprese nel settore dell’industria, dell’agricoltura, della pesca e dei servizi, promuovendo 80 operazioni tra ammodernamento, nascita di imprese e creazione di 1.700 nuovi posti di lavoro.

Il costo totale del programma è di 36.880.000 Euro, di cui 24.040.000 Euro per spese in valuta e 12.820.000 Euro per spese in moneta locale.

La percentuale massima del credito usata localmente è del 35% ed è stata utilizzata per l’acquisto di beni e servizi di origini tunisine. L’obiettivo di questa porzione di credito era lo sviluppo delle PMI tunisine, soprattutto nel settore dell’occupazione; si prevedeva inoltre l’integrazione di forniture e servizi di origine italiana con altre di origine tunisina.

Le condizioni di concessione del credito garantivano un dono pari al 40% del totale, per la prima annualità il tasso d’interesse annuo era pari allo 0,25%, il periodo di rimborso a 12 anni, comprensivo del periodo di grazia di 7 anni.

Il credito fu retrocesso agli Intermediari autorizzati (banche tunisine residenti) ad un tasso annuo pari a 0,25% per i prestiti in Euro e 3,25% per i prestiti in Dinari tunisini, il periodo di rimborso, invece, pari a 10 anni, è comprensivo del periodo di grazia di 3 anni.

Le condizioni per la concessione dei prestiti dagli Intermediari alle PMI erano:

- tasso d’interesse annuo pari al 3,25% per i prestiti in Euro, al 6,25% annuo per i prestiti in Dinari tunisini;
- periodo di rimborso pari a 10 anni, compreso il periodo di grazia di 3 anni;
- ciascun finanziamento individuale non superiore ai 2,3 milioni di Euro e non inferiore a 100.000 Euro;
- le modalità di rimborso concordate tra l’impresa locale e la banca.

Il programma ha iniziato ufficialmente le sue attività nel gennaio 2008, ed è terminato nel dicembre 2011.

### **1.b) Obiettivi del progetto: TERRITORI PALESTINESI “Programma di sviluppo del settore privato a sostegno alle piccole e medie imprese tramite il sistema di Private Banking Palestinese”**

Il programma è stato finanziato dal Ministero dell’Economia e delle Finanze su proposta della DGCS ed implementato dal Ministero delle Finanze Palestinese.

Il progetto nasce a seguito dell’accordo firmato a Ramallah il 22 luglio 2004 tra il Ministero degli Affari Esteri Italiano e il Ministero delle Finanze Palestinese. Esso si pone quale obiettivo generale quello di concedere assegnazioni di prestito agevolato a piccole e medie imprese (PMI) del settore privato palestinese.

L’iniziativa denominata: “*Programma di sviluppo del settore privato attraverso una linea di credito per sostenere le piccole e medie imprese*” ha un costo totale di 25.422.250,00 Euro, di cui 25.000.000,00 Euro stanziati a prestito agevolato da utilizzare per un impianto di linea di credito per le PMI, 422.250,00 Euro erogati a Fondo di Concessione, dei quali 249.000,00 Euro destinati all’istituzione di un Ufficio locale di collegamento, e 173.250,00 Euro destinati all’assistenza tecnica, al monitoraggio e alla supervisione del programma.

Il prestito agevolato è stato concesso al tasso d'interesse dello 0,00% annuo, il periodo di rimborso è di 38 anni ed il periodo di grazia è pari a 18 anni, in tale arco temporale sono dovuti solo gli interessi. L'erogazione dell'importo era prevista a tre rate anticipate.

### **1.c) Obiettivi del progetto: EGITTO “Programma di supporto alle piccole e medie imprese”**

Il Programma è stato finanziato dal Ministero dell'Economia e delle Finanze, su proposta della DGCS del Ministero degli Affari Esteri Italiano ed implementato dalla Banca Centrale d'Egitto, nonché dalle banche commerciali locali.

Il progetto nasce a seguito dell'accordo firmato a Il Cairo il 25 luglio 2004 tra il Ministero degli Affari Esteri Italiano e il Governo della Repubblica d'Egitto. Esso si pone quale obiettivo generale quello di concedere assegnazioni di prestito agevolato a piccole e medie imprese (PMI) del settore privato egiziano.

L'obiettivo generale dell'iniziativa è il supporto alle piccole e medie imprese egiziane, agli accordi o collaborazioni economiche tra l'Italia e l'Egitto, nonché agli investimenti industriali di lungo termine.

Gli obiettivi specifici invece sono:

- Sostegno agli accordi di collaborazione economica tra Italia ed Egitto;
- Incremento dell'innovazione tecnologica;
- Creazione di nuovi posti di lavoro;
- Attivazione di misure per contrastare l'inquinamento e per realizzare cicli produttivi eco- compatibili;
- Supporto alle esportazioni.

Il prestito agevolato è stato concesso alle seguenti condizioni: tasso d'interesse pari all'1,00% annuo, periodo di rimborso pari a 36 anni, la prima rata di rimborso è prevista 150 mesi dopo l'erogazione del credito.

## **2. Utilità della valutazione**

L'utilità della valutazione dei programmi è di accertare la misura in cui l'assistenza della Cooperazione italiana sia stata rilevante, effettiva, efficace e sostenibile nel raggiungimento degli obiettivi previsti per il settore.

La valutazione dovrà pervenire a un giudizio generale sul grado in cui le strategie e il programma hanno contribuito al raggiungimento degli obiettivi e dell'impatto previsto attraverso le risposte alle domande che dovranno essere concordate con la DGCS (vedi Allegato A).

Le conclusioni della valutazione saranno basate su risultati obiettivi, credibili, affidabili, validi e dovranno fornire alla Cooperazione Italiana raccomandazioni utili e operative. La valutazione dovrà rendere condivisibili le esperienze acquisite al fine di poter indirizzare i futuri finanziamenti nel settore.

A questo scopo, la valutazione dovrà analizzare come, per i programmi considerati, il supporto al settore della PMI ha influito:

- sulle previsioni e l'implementazione delle politiche, delle strategie e dei programmi;
- sull'efficacia degli aiuti in termini di prevedibilità, di implementazione delle strategie nazionali.

La valutazione dovrà fornire lezioni e raccomandazioni finalizzate alla continuità degli aiuti al settore nel contesto attuale.

## **3. Scopo della valutazione**

La valutazione dovrà

- esprimere un giudizio sulla rilevanza degli obiettivi e sul loro grado di raggiungimento,
- esprimere un giudizio su efficienza, efficacia, impatto e sostenibilità dei progetti;



- esaminare i Progetti nella loro completezza, per identificare le buone pratiche e le lezioni apprese, in modo da usarle come base conoscitiva per sviluppare i futuri pacchetti d'assistenza;
- analizzare le strategie e le modalità d'implementazione, come fornire raccomandazioni da integrare nei programmi di crediti d'aiuto in Tunisia, Territori Palestinesi ed Egitto;
- tenere in considerazione i fattori di sostenibilità e l'impatto che l'implementazione di tali programmi avrà sulle condizioni socio-economiche nelle quali versano i Paesi;
- stimare i risultati e l'effettività dei programmi di credito d'aiuto.

#### 4. Quadro analitico suggerito

Il *team* di valutazione può includere altri aspetti consoni allo scopo della valutazione.

I criteri di valutazione si basano sui seguenti aspetti:

- **Rilevanza:** Il valutatore dovrà verificare il grado in cui i Programmi tengono conto del contesto. La valutazione riesaminerà la misura con la quale gli obiettivi dei Programmi sono coerenti con i requisiti e le esigenze dei beneficiari. La valutazione stimerà se l'approccio è strategico e in che misura la controparte locale ha usato le risorse per l'attuazione delle attività previste dal Programma. Nel valutare la rilevanza dell'iniziativa bisognerà tenere conto: a) in che misura gli obiettivi dell'iniziativa sono validi, b) in che misura gli obiettivi dell'iniziativa sono coerenti, c) percezione dell'utilità dell'iniziativa da parte del destinatario.
- **Validità del *design* del progetto:** La valutazione riesaminerà la misura con la quale il *design* dei Programmi è stato logico e coerente.
- **Efficienza:** Analisi dell'ottimizzazione nell'utilizzo delle risorse per conseguire i risultati attesi. Nel valutare l'efficienza sarà utile considerare: 1) se i risultati sono stati raggiunti con i costi previsti, 2) se i risultati sono stati raggiunti nel tempo previsto, 3) se l'alternativa utilizzata era la più efficiente (minori costi o minori tempi) rispetto alle altre. La valutazione indicherà come le risorse e gli *inputs* sono stati convertiti in risultati.
- **Efficacia:** La valutazione misurerà il grado e l'entità di raggiungimento degli obiettivi dei programmi. Nel valutare l'efficacia dei progetti sarà utile considerare: a) se gli obiettivi, generale e specifico dei progetti, sono stati chiaramente identificati e quantificati, b) verificare se le caratteristiche progettuali dei progetti sono coerenti con gli obiettivi generali e gli obiettivi specifici, c) verificare in che misura gli obiettivi generali sono stati raggiunti, d) analizzare i principali fattori che hanno influenzato il raggiungimento degli obiettivi.
- **Impatto:** La valutazione misurerà gli effetti diretti ed indiretti provocati dai programmi nel contesto di riferimento. Nel valutare l'impatto si dovrà tenere conto dei reali cambiamenti che le iniziative hanno prodotto nella collettività. La valutazione stimerà l'orientamento strategico delle iniziative in relazione ai contributi apportati.
- **Sostenibilità:** Si valuteranno le capacità dei Programmi di produrre e riprodurre benefici nel tempo. Nel valutare la sostenibilità dei Programmi sarà utile: a) considerare in che misura i benefici continueranno anche a seguito della cessazione degli aiuti, b) verificare i principali fattori che influenzeranno il raggiungimento o il non raggiungimento della sostenibilità dei progetti.

#### 5. Outputs

Gli *outputs* dell'esercizio saranno:

- Un rapporto finale in inglese ed italiano con i risultati, le raccomandazioni e lezioni apprese in formato cartaceo e elettronico (Word e PDF).
- Quattro pagine di sommario del Rapporto di Valutazione dei Progetti in inglese e in italiano.

#### 6. Approccio e Metodologia della Valutazione

### **Data Collection:**

Il valutatore userà un metodo di approccio multiplo che includerà la revisione della documentazione, l'analisi di dati derivanti dalle attività di monitoraggio, le interviste individuali, i focus groups e la visita dei luoghi interessati dai Programmi.

Il metodo finale selezionato dal valutatore dovrà tenere conto degli obiettivi della valutazione e delle domande di valutazione che il valutatore formulerà attenendosi all'Allegato A.

E' richiesto quindi, che la proposta tecnica debba:

- a. Identificare la metodologia;
- b. Stabilire il livello di partecipazione degli stakeholders alla valutazione;

### **Validation:**

Il team di valutazione userà diversi metodi (inclusa la triangolazione) al fine di assicurare che i dati rilevati siano validi.

### **Coinvolgimento degli stakeholders:**

Sarà usato un approccio inclusivo coinvolgendo un ampio numero di stakeholders e di partners.

Dovranno essere coinvolti rappresentanti delle istituzioni coinvolte, di organizzazioni della società civile, del settore privato e più importanti i beneficiari del progetto di seguito elencati.

Per il progetto "Linea di credito in favore delle piccole e medie imprese tunisine":

- Ministre du Développement et de la Coopération Internationale
- Agence pour la Promotion de l'Industrie
- Banque Africaine de Développement
- Banque Centrale de Tunisie
- Banque de Financement des Petites et Moyennes Entreprises
- Banque Tunisienne de Solidarité
- Conseil Régional de Développement
- PMI beneficiarie

Per il progetto "Programma di sviluppo del settore privato a sostegno alle piccole e medie imprese tramite il sistema di Private Banking Palestinese":

- Palestinian National Authority
- Ministry of Finance
- PMI beneficiarie

Per il progetto "Programma di sostegno alle piccole e medie imprese":

- Central Bank of Egypt
- Local Bank
- Italian Financial Institution (MCC)
- National Borrower
- PMI beneficiarie

## **7. Piano di lavoro**

<b>1. Desk Analysis</b>	Revisione della documentazione relativa ai progetti
<b>2. Field visit</b>	Il team di valutazione visita i luoghi dei progetti, intervista le parti coinvolte, i beneficiari e raccoglie informazioni supplementari.
<b>3. Rapporto di valutazione</b>	Bozza del rapporto di valutazione
<b>4. Commenti delle parti interessate e feedback</b>	La prima stesura del rapporto di valutazione circola tra le parti interessate per commenti e <i>feedback</i> . Queste vengono consolidate ed inviate al team di valutazione.

<b>5. Workshop</b>	Workshop sulla presentazione della bozza del rapporto di valutazione con il coinvolgimento delle parti interessate.
<b>6. Relazione finale</b>	Il <i>team</i> di valutazione mette a punto il rapporto di valutazione incorporando i commenti.

### Caratteristiche del Gruppo di Valutazione

La valutazione dovrà essere svolta da un team di valutatori con esperienza nella gestione di progetti di cooperazione ed in particolare nel settore delle PMI. Il coordinatore del team dovrà avere una esperienza decennale nella conduzione di valutazioni. Il Team di valutazione dovrà possedere:

- Esperienza in interviste, ricerche documentate, redazione e scrittura di relazioni;
- Eccellenti capacità analitiche e di sintesi;
- Eccellenti capacità comunicative e di scrittura;
- Eccellente padronanza della lingua Inglese.

### FORMATO SUGGERITO DEL RAPPORTO DI VALUTAZIONE

<b>Copertina</b>	Il file relativo alla prima pagina sarà fornito dall'Ufficio IX della DGCS.
<b>1. Sintesi</b>	Quadro generale che mette in rilievo i punti di forza e di debolezza dei progetti. Max 4 pagine, focalizzandosi sulle lezioni apprese e raccomandazioni.
<b>2. Contesto del progetto</b>	- Situazione paesi - Breve descrizione delle necessità che i progetti hanno inteso soddisfare - Analisi del quadro logico - Stato di realizzazione delle attività e stima dei tempi di completamento dei progetti
<b>3. Obiettivo</b>	- Tipo di valutazione. - Descrizione dello scopo e dell'utilità della valutazione.
<b>4. Quadro teorico e metodologico</b>	- Gli obiettivi della valutazione - I criteri della valutazione - L'approccio e i principi metodologici adottati - Fonti informative: interviste, <i>focus groups</i> , <i>site visit</i> - Le difficoltà metodologiche incontrate
<b>5. Verifica della realizzazione</b>	Verifica dei principali stadi di realizzazione dei progetti.
<b>6. Presentazione dei risultati</b>	
<b>7. Conclusioni</b>	Concludere la valutazione facendola derivare dai risultati e dalle comunicazioni principali.
<b>8. Raccomandazioni</b>	Le raccomandazioni dovrebbero essere volte al miglioramento dei progetti futuri e delle strategie della DGCS.
<b>9. Lezioni apprese</b>	Osservazioni, intuizioni e riflessioni generate dalla valutazione, non esclusivamente relative all'ambito dei progetti, ma originate dai findings e dalle raccomandazioni.
<b>10. Annexes</b>	Devono includere i TORs, la lista delle persone contattate e ogni altra informazione/documentazione rilevante.

## **Allegato A.**

### **Identificazione delle domande di valutazione:**

La valutazione si baserà su un limitato numero di domande (max 10), per ogni progetto, che dovranno coprire i seguenti cinque criteri di valutazione: rilevanza, efficienza, efficacia, impatto e sostenibilità (OCSE/DAC).

### **Linee Guida per la redazione delle domande di valutazione:**

- Dovranno essere previste delle domande finalizzate alla verifica dei risultati raggiunti;
- Evitare di introdurre domande su argomenti non correlati, che devono essere invece analizzati in maniera trasversale, introducendo, per esempio, specifici criteri di giudizio;
- le domande di valutazione devono essere focalizzate e indirizzate verso uno dei risultati;
- evitare di introdurre domande troppo ampie qualora siano necessarie domande esplicative aggiuntive;
- evitare di inserire domande riferite a diversi livelli di risultati;
- i cinque criteri di valutazione non devono essere menzionati esplicitamente nelle domande di valutazione;
- verificare che le risposte non siano soltanto affermative o negative;
- le domande di valutazione devono essere correlate a un numero specifico dei criteri di giudizio, alcuni rapportati ad analisi trasversali e a concetti chiave;
- aggiungere un breve commento che specifichi il significato e lo scopo delle domande.

## ANNEX 2 LIST OF PEOPLE MET

<i>Palestinian territories</i>			
	<b>Name</b>	<b>Position</b>	<b>Organisation</b>
1.	Jacky Amprou	Consulat General de France	AFD - Agence Française de Développement
2.	Francesca Biondi	Programme Officer	Consulate General of Italy – Development Cooperation Unit
3.	Julien Buissart	Economic & Commercial Counselor	Consulat General de France a Jerusalem
4.	Fulvio Capurso	Private Sector Development Expert	Consulate General of Italy – Development Cooperation Unit
5.	John Khoury		EPGCF
6.	Jamal Jawabreh	Executive director	FPCCIA
7.	Vincenzo Racalbutto	Director	Consulate General of Italy – Development Cooperation Unit
8.	Thoma Rahn	Advisor	GIZ
9.	Hanna Sahar		EPGCF
10.	William Serousis		Sherakeh – Palestinian Microfinance Network
11.	Mohammed Khudari		Bank of Palestine
12.	Albeir Hanash		Alquds Bank
13.	Mahmoud Krunz		Alquds Bank
14.	Bassem Khouri		Pharma Care Company
15.	Mujahed Halayqa		Al-Badyeh Stone Company
16.	Abd Al-Haleem		Salam Investment Group
17.	Adly Natsheh		Salam Investment Group

<i>Tunisia</i>			
	<b>Name</b>	<b>Position</b>	<b>Organisation</b>
1.	Taha Belkhdja	Expert Consultant	CQB – Conseil Qualité Bâtiment
2.	Talel Derouiche	Responsables des lignes de crédits extérieurs	Banque Centrale de Tunisie
3.	Patrick Di Vincenzo		UTL Tunisi
4.	Emma Arâar Gasmi	Responsabile della cooperazione bilaterale italiana	Ministère de l'Investissement et de la Coopération Internationale
5.	Haykel Ghodbane	Directeur des paiements extérieurs	Banque Centrale de Tunisie
6.	Abdelkader Masmoudi	Direction Réalisation, Gestion de Fonds & Financement Court Term	Banque de Financement des Petites et Moyennes Entreprises
7.	Zied Mbarki	General Manager	ZADCO Trading
8.	Cristina Natoli	Direttrice	Ambasciata d'Italia a Tunisi – Cooperazione Italiana allo Sviluppo
9.	Marouane Ouederni	Directeur Général Adjoint	Banque de Financement des Petites et Moyennes Entreprises
10.	Samia Saied	Sous-directeur des paiements extérieurs	Banque Centrale de Tunisie
11.	Lotfi Trifa	Directeur Général de la Coopération Bilatérale	Ministère de l'Investissement et de la Coopération Internationale
12.	Essid Zouhair	General manager	Société Briqueterie Essid
13.	Ridha Laroussi	General manager	Société de coupe et de travail de marbre
14.	Sassi Ezzedine	General manager	Société Torkia Marbrerie
15.	Abdelaziz Kooli	General manager	Société Ferz

<i>Tunisia</i>			
	<b>Name</b>	<b>Position</b>	<b>Organisation</b>
16.	Belagacem D'Khili	General manager	Les vigneron de Carthage
17.	Taha Belkhdja	General manager	Société d'équipement & service – TES
18.	Djidi Ben Ali Younes	General manager	Houyem de services agricoles
19.	Slim Attaya	General manager	Attaya de volailles
20.	Mohamed Naceur Maklouf	General manager	Polyservices
21.	Sahbi Sallem	General manager	Aqua Fish Tunisie
22.	Skander Hochlaf	General manager	Tunis Enseignes
23.	Ali Cherif	General manager	Société AGEPRO Tunisie
24.	Fethi Ghali	General manager	Société Nouvelle Accumulateurs Nour
25.	Jalila Houssein	General manager	Société Label-Printing

<i>Egypt</i>			
	<b>Name</b>	<b>Position</b>	<b>Organisation</b>
1.	Dr. Affaf	CEDAW coordinator	CEO, CPE women developments centre Egypt
2.	Mr. Ahamad	SME division	National Bank of Egypt
3.	Engineer Ahmad	Operation manger	Tag El Melouk
4.	Mosbah Ahmed	financial manager	Appex Furniture SME
5.	Khaled Abdel Fataah	CEO	Appex furniture SME
6.	Nadia Fathalla	Italian-Egypt relation specialist	Ministry of International cooperation
7.	Hanaa' Hilali		Social Fund for Development
8.	Amro Khaled	SME division	National Bank of Egypt
9.	Hassan Ibrahim	Reserve management unit	Central Bank of Egypt
10.	Igor Marcialis	Commodity Aid, manager	Italian cooperation- Cairo
11.	Ambassador Marwan Badr	Minister assistant for Europe relation	International cooperation ministry-Egypt
12.	Ms. Marwan	Ambassador Badr office Manger	Ministry of international cooperation
13.	Abdel Fataah Mohamed	Branch credit officer	NBE
14.	Mr. Rami Aboul Naga	Head of FX&MM Desk	Central Bank of Egypt
15.	Engineer Osama	Production and quality manager	Tag El Melouk SME
16.	Marco Platzer	Head of the Italian cooperation	Italian cooperation- Cairo
17.	Mr. Salah	Finance manager	Tag El Melouk- SME
18.	Mohamed M. Shawky	Manager credit line & products development unit SMEs division	National Bank of Egypt
19.	Mr. Hany Shawky	Head of development unit	Caritas Egypt
20.	Mr. Ahmad Singer	CEO	Singer Bricks Co. Helwan
21.	Mr. Tawfeek	Head of SME Unit	National Bank 6th October Industrial Zone branch
22.	Mr. Usama	Deputy Finance manager	Al Badry Wooden industries
23.	Iman Zaboura	Comedy program	Italian cooperation- Cairo
24.	Marco Potetti	Ex Responsable UNIDO-IPU in Egitto	
25.	Diana Bottaggia		UNIDO-ITPO Roma
26.	Giovanna Ceglie		UNIDO – Egitto
27.	Sara Berlese	Ex UTL Egitto	UNIDO Egitto
28.	Laura Garagnani	Capo Operazioni DUE	DUE Egitto

<i>Meeting concerning the whole set of projects</i>			
	<b>Name</b>	<b>Position</b>	<b>Organisation</b>
1.	Michele Morana	Expert	MAE – DGCS Ufficio IX
2.	Ginevra Letizia	Expert	UTC
3.	Gianandrea Sandri	Expert	UTC
4.	Maurizio Bonavia	Expert	UTC
5.	Nino Merola	Expert	UTC

## ANNEX 3 DOCUMENTARY REFERENCES

### Egypt

- Agreed minutes on the Technical Assistance Programme in Support of the Egyptian small and medium Enterprise, seems to be from early 2011 (has no specific date)
- Implementation Protocol Between GoI and GoE
- Internal communications and emails exchange between Italian Cooperation and NBE, Between the Italian cooperation and MoIC
- Letter to Ambassador Badr includes update on end of the role of the UNIDO and moving the TAT to the Italian cooperation Office
- NBE Statement of Accounts - updates and balance movements updated up to April 22, 2013 for Chloride, Apex, Tag El Melouk, Al Behera, German Battery, Haddad, Egypt Trade, Med Star and Al Badry
- Procedures to be accomplished for the request of the "Request Disbursement" for the second installment
- Project documents, business plans, invoices and Per-Forma for Mega Glass (Muiltling Plant), Univert (the Italian company offer "Fava") and Tag El Melouk (Backing Machinery).
- Rejected project proposal Singer Bricks
- Summary of the status of the concluded application UNIDO
- Technical assistance Team project evaluation, Mega Star and Tag El Melouk
- Technical assistance Team projects review and update request October 2012
- UNIDO Italian credit line findings and lessons learned
- UNIDO march 2007 summary of the business plan activities related to the credit line application and comments
- Amendments to the implementation protocol February 2012
- Coordination meetings agenda and minutes
- Eligibility criteria Italian cooperation TAT
- Financial and non financial tools Supporting SMEs the Experience of the Italian credit line
- Linea di Credito a Favore PMI – Scheda Tecnica
- Management committee meetings minutes April 2007, October 2007
- Progress update, Problems and Solutions TAT 2013

### Palestinian territories

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