

Reaching out to rural and agricultural clients with tailored lending products by Advans Tunisie

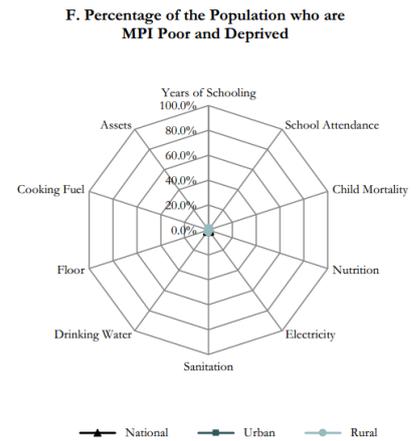
1. DEVELOPMENT RELEVANCE

Economic and poverty context

Current account deficit remains elevated despite strong performance of tourism and agriculture which supported a modest growth acceleration. Inflation, which reached record levels in 2018, has decelerated slightly as the Central Bank tightened monetary policy. High unemployment persists especially among youth, women and in interior regions. Steps were taken in 2018 to tackle high and inefficient spending including on energy subsidies; however, the challenging social and political context including presidential and parliamentary elections in late 2019 may complicate reform efforts.

| Table 1 ⁱ : Population and economic indicators | |
|--|-------------------|
| Population in million (2017) https://data.worldbank.org/indicator/SP.POP.TOTL?locations=TN | 11 532 127 |
| GDP growth (2017) | 1.957 % |
| Inflation (2017) | 5.329 % |
| Trade balance (% of GDP) (2017) | -12.398 % |
| Foreign direct investment (net) (% of GDP) (2017) | 2.027 % |
| Net ODA received (% of GNI) (2017) | 2.005 % |
| Remittances received (% of GDP) (2017) | 4.731 % |
| Economic Freedom Index ⁱⁱ (Rank among 186 countries) (2019) | 125 |
| Poverty indicators | |
| GDP per capita (USD) (2017) | 3 464.417 |
| Gini Index (0= equality 100= inequality) (2015) | 32.8 |
| International poverty rate (2015; at 1.90 USD/day) | 0.3 % |
| National poverty rate (2015) | 15.2 % |
| National rural poverty headcount rate (year) | No data |

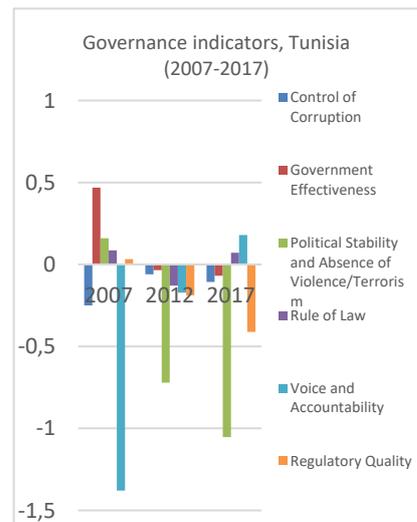
Multidimensional poverty index 2017ⁱⁱⁱ



Financial sector context

The trade deficit deteriorated to 3 973 M TND at the end of the Q1 2019 against 2 215 M TND in February 2018. The dinar depreciated by 2.3% against EUR and 2.6% against USD since the beginning of the year. Currency reserves in days of import reached 86 days in March 2019, compared to 80 days in March 2018. The average monthly volume of the refinancing amounted to 16,198 MD, compared to 12,319 MD in 2018.

During the same period, investment intentions in the industry also fell in this downward trend. Inflation rose to 7.3% and core inflation slowed compared to January. Long rates (bond rates - long-term receivables) increased of 173 basis points from February 2018. Local political instability continue to weigh on business sentiment, limiting the recovery in fixed investment.



One of the challenges of the microfinance sector in the absence of deposit activity is refinancing. This increases with the impossibility of refinancing with the central bank of Tunisia. International refinancing is also very limited since conditioned to prior authorization of the central bank. The cost of refinancing is steadily increasing due to the local liquidity crisis and the depreciation of the TND.

Partner financial institution

Advans Tunisie is the Advans Group's eight greenfield project and its first in the MENA region. Advans Tunisie was created as a private company with a capital of TND 4.5 million (ca. EUR 1.9 million) in September 2013 by Advans SA (as majority shareholder), along with SANAD, Amen Bank and INAAM. The project was also granted support from the SCBF ("SCBF 2012-04: Launch of ADVANS Tunisie's MSME loan products"). The MFI launched operations in March 2015, after the grant of the official license.

Advans Tunisie aims to provide tailored credit services to Tunisian micro and small-sized enterprises (MSEs) to support the growth of their activities, thus complementing the current offer from commercial banks and existing microcredit associations in Tunisia, in both urban and rural areas. Through the delivery of these services, Advans Tunisie aims to foster sustainable economic and social development in the country. The strategy is to extend the network of branches, reach out to rural areas and to diversify the product offer. In 2020, Advans plans to reach 20 000 clients with a loan portfolio of more than 100 million TND.



2. INTERVENTION APPROACH

Capacity building needs

A market study was conducted in May 2017 by Advans International in rural and agricultural areas in order to determine clients' needs for specific products and services as well as their constraints. Advans Tunisie was only two and a half years old in August 2017, thus committing to these markets was a challenge, given the sometimes poor results from rural and agricultural lending programs in both the Tunisian market and abroad. Moreover, Tunisia had a limited history of credit for agriculture apart from BNA (Banque Nationale Agricole) or BTS (Banque Tunisienne de Solidarité) which had problems in credit recovery and small credits from Enda.

Main activity areas (goals, targets, resources & time frame) and outputs

The project 2017-08 aimed first to develop a new individual loan designed specifically for clients working in the agricultural sector, and second to further develop the rural lending segment through other credits. The other main component expanding rural lending beyond agricultural lending was to develop Alternative Delivery Channels (ADC) to reach out to rural clients and offer more adapted means for reimbursement first, and disbursement second.

The agricultural lending component has shown very good results with 65 staff trained from the 30th of September 2017 to the 30th of April 2019 in all Advans branches. If we relate to the 3 branches mentioned in the contract (Kairouan, Zaghouan and Béja), 26 staff were trained (Loan Officers (LOs) and managers). The ADC component in rural areas led to the training of all the staff of the 2 branches which were selected in the ADC pilot: 24 staff trained. Both resources financed by the SCBF contract (Local Agri Expert and Junior Expert) are still staff of Advans Tunisie.

3. RESULTS ACHIEVED AND NOT ACHIEVED

Client level

A satisfaction survey was conducted in February 2019 amongst 300 of the 10 255 Advans' client, with a sample drawn in October 2018 over Advans Tunisie's portfolio at the time. Agricultural loan clients were over represented in order to have a sufficient sample from this segment to draw conclusions (14% of the number of respondents versus 4 % of the total portfolio).

The survey found that 48% of agricultural clients were fully satisfied of the product, versus 59% of the total sample, and 5% of them were unsatisfied. One of the reason for dissatisfaction was agricultural loan clients considered the amount of credit too low (38% of agricultural loan clients versus 15% of the total) although such credits were in average 40% higher than Advans Tunisie's overall disbursed credit over the same period. Another reason was the design of the repayment schedule: agricultural loan clients considered the schedule too tight with regards to their different activities. Advans Tunisie's analysis for agricultural activities indeed

takes into account the activities of the farmer to design the repayment schedule to reduce risks, which is not in the habits of the farmer.

Despite a few complaints pointed out by Advans' agricultural clients, the latter are also the more likely to renew their credit with Advans (69% versus 63% of the whole population). With regards to the impact of the credit, 2% of agricultural loan clients observed an important increase in their revenue: 93% saw a slight increase and 12% could have hired more employees.

Client Profiles

Omar Trabelsi, 55 years old

Place: Imadat Boucha, Délégation de Bir Mchergua, Governorate of Zaghouan

Zaghouan is in a semi-arid bioclimatic zone known for sheep breeding, field crops, olives and few vegetable crops (tomato and pepper mostly). Omar Trabelsi owns 50 ha of cereals and breeds sheeps and local-race bovines. He was granted a first credit at Advans to buy lambs and food for breeding for the Aïd. With a 20 000 TND credit, he could increase its revenues and invest to drill a 150m-depth well with the objective of developing vegetable crops.

With the agreement of Advans for 40 000 TND as the 2nd cycle, Mr. Trabelsi bought counter season potato and tomato seeds for 5ha (cf picture below). With the support from the Advans Loan Officer, Mr. Trabelsi took the habit of keeping bills related to its activity in order to improve its access to financial services. Mr. Trabelsi has shown perfect credit repayment history.



Mr. M'Naour in his barn with an Agri Loan Officer and Agri Operations Officer

Jabri M'naour, 61 years old

Place: Imadat Rmila, délégation d'Amdoun, gouvernorat de Béja

Beja is in an inferior sub-humid zone known for field crops (cereals, field beans, chickpeas, sunflower) and sheep breeding of the noir-de-Tibar race. Mr M'Naour has 20 ha composed of wheat, chickpeas and beans; as well as 4 dairy cows. He took a loan of 8 000 TND to invest into two in-calf heifers in order to increase milk production capacity and generate revenue from selling calves. With the generated revenue, linked to the public policy driven increase of the milk price, Mr M'Naour bought two new dairy cows and applied for Advans credit renewal to purchase two more. Just 15 months after the first Advans Credit, Mr M'Naour had 12 dairy cows. Thanks to the development of the activity following the Advans credit, Mr M'Naour has involved his wife and 23 years old's son within the activity. Mr M'Naour said it prevented the son from leaving for the capital to find for a low qualified job and will be able to train to take over.



Mr Trabelsi in front of his vegetable crops, with the Agri Operations Officer and Agri Loan Officer

Partner financial institution/s level

The objectives of launching prepaid cards (ADC components) were subject to an amendment of the contract since our Partner for this solution – La Poste – hadn't finalized all set-up and had not agreed on pricing terms. No cards could have been distributed before the end of December 2018. In the end, 122 cards were distributed in branches of Zaghouan and Beja at the end of April 2019. With regards to this component, Advans Tunisie had initially signed with La Poste a convention mentioning 6 possible channels that the partnership could result in:

- a. Automatic debit on the prepaid card
- b. Mobile payment Via USSD and mobile App (DigiPost, MobiPost ...)
 - a. not developed due to unsuccessful re-negotiations of revenue sharing between La Poste and Telecom operators.

- c. Payment via POS at businesses accredited by la Poste Tunisienne
 - a. not a priority, neither for La Poste nor Advans
- d. Payment via an Advans App integrated to the La Poste e-dinar solution
 - a. an option considered by Advans, which is currently determining the needs for such an Application in order to offer an adapted interface to its clients
- e. Cash payment at La Poste computer equipped branches
 - a. not developed as La Poste decided not to develop the specific interface to register cash reimbursements for the Advans account because it required too much investment compared relative to their expected added value.
- f. Payment via Terminal de Paiement Electronique (TPE) at Advans

An Advans Tunisie Branch

In the end, channel a (automatic debit on the prepaid card) has been rolled out in 5 branches including Beja and Zaghuan. It is operational for clients giving their authorization for automatic debit. All the 122 clients with the prepaid card have accepted automatic debit. However, all of them do not systematically charge it with a sufficient amount to reimburse their credit, notably because they are still accustomed to the former means of reimbursement. Channel f (Payment via TPE at Advans) . is in place in all Advans branches, TPE are installed in each of them and is a solution for reimbursement for clients with prepaid cards. It is however not the channel prioritized by Advans since it doesn't solve transportation issues for clients.

The ADC component has therefore been reached with the delivery of the 122 cards and training of the beneficiaries. The solution is being closely monitored in order to improve performance of reimbursement of this channel and accustom clients to adequately use the card. Trainings and deployment of the agricultural lending product led to a better than anticipated level of performance for the product: the expected output was 113 agri clients and 500 rural clients at the end of December 2018, whereas 764 agricultural loans were disbursed (see the indicators below).

Results for the agri and rural ADC component in the 3 pilot branches (including Logframe Outcome indicators)

| Indicator | 30 th of April 2019 |
|--|--------------------------------|
| Total agri credits disbursed | 764 |
| Number of active agri loans (=Number of Agri Clients) | 542 |
| Agri Portfolio (TND) | 3 929 160 |
| PAR 30 at the end of the period for the agri product | 0.76% |
| Number of Rural Clients | 1308 |
| Number of Rural female clients | 311 (24%) |
| Rural Portfolio (TND) | 6 264 897 |
| Number of clients with prepaid co-branded card | 122 (1,3%) |
| Number of clients trained on the card ¹ | 122 (1,3%) |

Institution's Quarterly Evolution

| Indicator | Q4-17 | Q1-18 | Q2-18 | Q3-18 | Q4-18 | Q1-19 |
|--------------------------------------|------------|------------|------------|------------|------------|------------|
| Number of Active Clients | 6583 | 7545 | 8616 | 9716 | 11229 | 12671 |
| Portfolio (TND) | 28 177 052 | 33 114 397 | 39 410 484 | 45 186 806 | 54 723 680 | 63 576 302 |
| Average loan size (disbursed) | 5 482 | 6 242 | 5 978 | 6 032 | 6 312 | 7 338 |
| PAR 30 | 2,0% | 1,7% | 1,9% | 2,1% | 1,6% | 1,6% |
| Retention rate | | | 64,33% | 67,64% | 71,21% | 73,07% |
| Number of transactions | | | | | | 106 |
| Average value of transaction | | | | | | 440 |

Financial sector level

N/A

4. LESSONS LEARNT & RECOMENDATIONS

¹ The Advans co-branded prepaid card is delivered at disbursement or during a client visit to the branch, thus training is delivered at this stage by our staff at the branch. Moreover, the card was deployed for direct assisted levy.

The design and methodology of the individual agricultural loan product was adapted to the targeted Tunisian farmers, in a country where few agricultural producers are structured into value chains, and where few financial institutions were financing this clientele. Overall, the intervention was implemented as planned. Both resources financed by the SCBF contract (Local Agri Expert and Junior Expert) are still in contract and the objectives were reached after 5 months (113 clients reached within the month of February 2018). However for one component, milestone 3, , the milestone couldn't be reached as planned before the 31st of December 2018 since our partner – La Poste – postponed the launch of the agreed solution (+1 year delay). However, the amendment agreed upon with SCBF extending the contract until the end of April 2019 allowed Advans Tunisie to reach the milestone and deploy the prepaid card solution. Challenges encountered:

- Recruitment of motivated / adapted loan officers: staff turnover is quite important in the microfinance sector especially with competition from banks. Moreover, rural areas can be more difficult than other regions due to poor transportation infrastructure, security issues, and difficult relations with people from other communities, among others. Therefore, it has been difficult to find profiles to work with clients in rural areas in the medium term, not only in the short term
- Embedding the agricultural loan within Advans Tunisie's range of products in the context of high growth and multiple projects, notably among the middle management
- Training and change of management at headquarters

Rural – Agri component

Starting a new agricultural micro loan product is challenging for most MFIs in the world, especially due to high risks and difficult loan recovery. Advans Tunisie managed to pilot and deploy the product successfully up to April 2019 for the following identified reasons:

- Sound market study and design of the product: Advans Tunisia has benefited from the expertise of two senior specialists from Advans International before the launch of the product to study the market, develop the specific credit methodology and draw the principles for staff training.
- Double competency to deploy the product: one of the challenges of financing agriculture is to understand rural culture and habits enough to adapt internal processes and methodology to limit risks, especially risks related to technical issues. Advans Tunisie, with SCBF's, financed two staff to launch and monitor the product and address these risks: a Junior Microfinance specialist and an Agronomist.
- Close coaching of staff after initial training
- Recruit and train specialized Loan Officers within local areas in order to have : i) knowledge of the local actors and culture, ii) feeling of appurtenance to the area and will to develop, iii) facilitated process for delivery through specific organization, enhancing proximity with the client.

Rural ADC component

The co-branded card with La Poste was deployed after a long initiation process mostly due to La Poste's set-ups and negotiation over the different solutions mentioned in the bilateral convention. The launch of the service in February pointed out first insights:

- Deploy in rural areas where conventional channels are not adapted to client's location or habits : the service has revealed to be more successful (higher intake and use) for rural – agricultural clients than for urban clients since the cards allows one to travel less to the city and avoid queues and ill adapted service or atmosphere at the bank.
- Close follow up of clients to construct habits of use: the first month of the pilot has shown limited immediate use of the card for reimbursements since clients didn't have the reflex to replenish their card in advance. Phone call reminders and texts were automatized in order to create the habit.
- Sound training of branch staff and development of detailed commercial material to assist them in their capacity to convince clients of the new solution (change management).

ⁱ The World Bank Group (2019). World Development Indicators database. Washington, DC. <http://data.worldbank.org>. Accessed (18.07.2019)

ⁱⁱ Heritage Foundation, (2019) Index of Economic Freedom, <http://www.heritage.org/index/ranking> Accessed (18.07.2019)

ⁱⁱⁱ Oxford Poverty and Human Development Initiative (2019). Global Multidimensional Poverty Index Databank. OPHI, University of Oxford. http://www.dataforall.org/dashboard/ophi/index.php/mpi/country_briefings, Accessed (18.07.2019)

^{iv} The World Bank Group (2019). Worldwide Governance Indicators database. Washington, DC. <http://databank.worldbank.org/data/reports.aspx?source=Worldwide-Governance-Indicators>. Accessed (18.07.2019)