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# ACCESS TO FINANCE LESSONS LEARNED CASE STUDY: BLENDED FINANCE AND DIGITALIZATION

## TUNISIA JOBS, OPPORTUNITIES, & BUSINESS SUCCESS PROJECT (JOBS)

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**John Berry, Senior SME Finance Specialist**  
**Aiden Hall, SME Finance Specialist**

Implemented by:

Chemonics International Inc.  
1275 New Jersey Avenue SE, Suite 200  
Washington, DC 20003  
Phone: 202-955-3300

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## I. INTRODUCTION

The United States Agency for International Development (USAID)-funded Jobs, Opportunities and Business Success (JOBS) Activity is a six-year, \$77.6 million activity to support small- and medium-sized enterprises (SMEs) to create sustainable employment for Tunisians. The Activity’s access to finance and investment component supports improving lending processes to increase access to finance for SMEs, developing new innovative digital tools, and facilitating investment in SMEs by improving deal flow and transparency.

## II. BACKGROUND

JOBS has implemented a range of innovative blended finance approaches to leverage private sector investment and improve access to finance for Tunisian small businesses. By attracting commercial capital to development activities, blended finance creates social impact while offering financial returns to investors, sustainably enlarging the pool of resources available for development finance.

According to the principles developed by the Organization for Economic Cooperation and Development (OECD), “blended finance involves the strategic use of development finance for the mobilization of additional private sector finance towards sustainable development.”<sup>1</sup> Following best practices in blended finance, JOBS offered technical assistance packages to its financial partners grounded in the development rationale of increasing access to finance for women, youth, and rural clients. Through targeted technical assistance, JOBS promoted additionality while leveraging private sector investment. In order to have a market-systems level impact, blended finance interventions were designed to be scalable and sustainable. Finally, to ensure interventions maximized impact, JOBS required transparent reporting from partners on their financial performance.

### OECD Blended Finance Principles



This case study documents the strategies and approaches used by JOBS partner *Société Tunisienne de Garanties (SOTUGAR)* to leverage blended finance from the Tunisian government and private sector banks to increase access to finance through loan guarantees. The case study offers a concrete example of blended finance in practice to demonstrate its potential for innovation and impact. Through an innovative combination of digital financial services (DFS) with a traditional loan guarantee mechanism, SOTUGAR improved customer satisfaction and social and financial impact. JOBS support enabled SOTUGAR to realize their vision of a digitalized platform for guarantee management by providing technical support to conceptualize a digital solution, identify business requirements for their platform, and develop a software solution.

## III. SOTUGAR

SOTUGAR was established in 2003 as an autonomous, public benefit, joint-stock company focused on promoting the development of SMEs through loan guarantees. SOTUGAR is managed by an independent

<sup>1</sup> <https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/OECD-Blended-Finance-Principles.pdf>

board of directors, with a capital base of \$3 million, 37% of which is held by the Government of Tunisia (GoT) and 63% by 14 state-owned and private banks.

SOTUGAR's objectives focus on supporting SMEs through interventions intended to address constraints to access to finance on both the demand and supply sides. On the demand side, SOTUGAR works closely with SMEs to ensure needs-based and sustainable access to finance, as well as improved capacity and competitiveness. On the supply side, SOTUGAR aims to reduce the cost of supporting SMEs by mitigating loan risk, while building financial partners' capacity to profitably serve smaller businesses.

SOTUGAR manages five separate guarantee funds and more than a dozen sub funds focused on different clients and financial needs. These include funds to support SMEs, businesses recovering from COVID, tourism, housing, energy efficiency, and exports. Their guarantees cover a broad range of economic sectors (excluding hotels, financial services, trade, and real estate development), business types, and funding needs.

#### **IV. WHAT WAS DONE?**

SOTUGAR's approach to blended finance strives for additionality by using subsidies in the form of guarantees to encourage banks to make loans to marginalized clients who otherwise might not be approved. Guarantee funds target different national development priorities, including supporting small businesses to promote employment, energy efficiency, and innovation. SOTUGAR responded to the changing needs of Tunisian small businesses by developing Support for Business Resilience guarantees during the COVID pandemic to help small businesses recover from the economic shock of the crisis. The average size of the guarantees issued is tied to the needs of different small businesses, with loan guarantees for the SME Guarantee Fund averaging less than \$1,000.

##### **A. DIGITALIZING BLENDED FINANCE WITH THE DHAMEN EXPRESS GUARANTEE**

The Arabic word for guarantee is "*dhamen*," and SOTUGAR's Dhamen Express guarantee mechanism offers an excellent example of their approach to using blended finance to leverage private sector investment to increase access to finance for Tunisian SMEs. Based on feedback from partner banks about the cumbersome administrative requirements of SOTUGAR's guarantee products, they developed the Dhamen Express guarantee in 2018. Dhamen Express combines a streamlined application process with reduced paperwork requirements and an online application portal with real time verification of application information, efficient document management, and secure communications. With these innovations in product terms and conditions and administrative processing, SOTUGAR has significantly reduced the burden of applying for a guarantee and improved relations with its partner banks, venture capital investment firms, and leasing companies.

##### **B. THE DHAMEN EXPRESS PRODUCT**

SOTUGAR's two key goals in developing the Dhamen Express guarantee product were to increase outreach to SMEs and improve risk management. An important element of the new product was the reduction and streamlining of guarantee application procedures and the broadening of selection criteria to attract more loans. SOTUGAR also envisioned scaling up use of the new product would allow them to take advantage of the effect of large numbers to better pool and manage risk. To make the Dhamen Express product as safe, fast, and efficient as possible, a third goal was to digitalize the application and guarantee management process.

The Dhamen Express guarantee was created specifically to serve SMEs. It can be used to guarantee short, medium, and long-term loans, startup equity, or leasing (debt currently makes up approximately three quarters of the portfolio and equity the other quarter). The length of the guarantee term is only limited by the terms of the financing. All registered businesses in good standing (with no defaults in the

Central Bank’s credit registry) are eligible for Dhamen Express guarantees except for those in the hotel, financial services, trade, and real estate development sectors (some of these sectors are covered by other guarantee mechanisms). Guarantees can be issued as an individual guarantee with a maximum of \$4.8 million or a partial portfolio guarantee for multiple loans with a limit of \$643 thousand. Guarantee coverage varies by type of borrower and type of financing. Finance to new borrowers and innovative businesses, as well as loans to underserved Regional Development Zones are covered at 75%. Other loans are covered at 60%, and leasing is covered at 50%.

#### **Dhamen Express Guarantee Mechanism**

<b>USD</b>	<b>2022</b>
Guarantees issued for the year	\$5,512,862
Cumulative guarantees issued	\$5,512,862
Total assets and equity	\$13,408,360
Total non-performing guarantees	0
Total obligations against guarantees	\$3,827,010
Available capital	\$13,136,977

Source: SOTUGAR, Rapport d’Activité, 2022.

### **C. THE DHAMEN EXPRESS PLATFORM**

In 2020, SOTUGAR approached JOBS with a dilemma: their new Dhamen Express guarantee was flexible, with fewer and less restrictive administrative requirements, but it was still administered using manual and paperwork-heavy management systems. They had begun the process of developing a digital platform for this new product, but before they could get started they ran into funding constraints. Aware of JOBS’ support for other Tunisian banks to develop DFS solutions, SOTUGAR requested support to design and develop a software solution for Dhamen Express.

JOBS began work on the digital solution in February 2021, focusing first on the development of documentation and application modules. After a year of development, and an intense testing process to ensure client data were secure, SOTUGAR began rolling out the Dhamen Express digital platform in June 2022. To speed up roll out, SOTUGAR offered a series of trainings and technical support on how to access and use the online system. For the convenience of partner banks, 12 training programs were offered at the regional level to 230 branch-level account managers.

To address complaints from some partners about difficulties signing up with the system, SOTUGAR created a help desk offering virtual and in-person support and provided each partner with individualized technical assistance from IT and lending staff. SOTUGAR client relationship managers also monitored partners’ progress in completing guarantee applications and communicated through direct messaging to answer questions. Almost a year and a half since roll out of the new system, banks report that it is user friendly and that it has greatly improved the application process.

## **V. WHAT WORKED WELL?**

### **A. LEVERAGE**

The Dhamen Express product was designed to leverage private sector capital from partner financial institutions for loans to SMEs. To scale its portfolio, SOTUGAR only obligates a portion of the value of the guarantees it approves. For example, as of the end of 2022, SOTUGAR posted net equity of \$8.1 million, while as of September 2023, a total of 57 Dhamen Express loans were issued at a value of \$11.4 million, leveraging 29% more in loans than the value of their equity base.

## B. SCALABILITY AND EFFICIENCY

Although Dhamen Express has only been on the market for 15 months, it has quickly become one of the fastest growing guarantees in SOTUGAR's portfolio. From June to December 2022, 22 banks signed partnership agreements, with six active partners issuing more than \$5.5 million in guarantees. Because the Dhamen Express product fits neatly into their strategy of reaching out to smaller businesses, Attijari Bank has been particularly active in issuing guarantees and holds more than 50% of the Dhamen Express portfolio.

### Dhamen Express Guarantees (USD as of 2022)

Bank	Value of Guarantees	Number of Guarantees	SOTUGAR Commitment	% of Guarantees
Attijari Bank	\$2,781,350	9	\$2,085,852	50.5%
Arab Tunisia Bank	\$70,740	1	\$53,055	1.3%
Banque de Tunisie	\$189,068	5	\$106,431	3.4%
Banque Internationale Arabe de Tunisie	\$475,884	2	\$285,531	8.6%
Banque de l'Habitat	\$763,666	4	\$569,453	13.9%
Société Tunisienne de Banque	\$1,232,154	5	\$726,688	22.4%
<b>Total</b>	<b>\$5,512,862</b>	<b>26</b>	<b>\$3,827,010</b>	<b>100.0%</b>

Source: SOTUGAR, Rapport d'Activité, 2022.

To reach greater scale, SOTUGAR plans to decentralize a significant part of the approval process to the regional level. The main database and core banking systems will stay at the headquarters level where final approval is issued, but bank clients will have the option of applying for guarantees at their regional branch office. Decentralizing the guarantee applications also allows branch staff to provide in-person support and ensures SOTUGAR staff closest to the client are part of the process. In addition, decentralizing and automating the application process has sped up guarantee approval by spreading the workload more broadly.

## C. OUTREACH TO WOMEN, YOUTH, AND RURAL POPULATIONS

In addition to increasing outreach to SME clients, the new Dhamen Express platform allows SOTUGAR and its partner banks to specifically target underserved groups. As of September, partner banks had issued 15 guaranteed loans to underserved rural areas and nine loans to women-owned SMEs (26% and 16% of SOTUGAR guarantees respectively). The platform captures personal and financial client data as well as data about clients' business and loan, including sector, size, and term. Some partners have used this information to target underserved clients and sectors, such as youth and agriculture. By using the system to pretest a guarantee application, a bank can determine loan eligibility ex-ante as part of the loan approval process. With smaller loans, they can set up a system of automatic eligibility based on set criteria. These criteria can be easily changed over time based on the risk profile of different borrowers.

Partner banks stated that the ease of use of the new platform allowed them to both increase their use of SOTUGAR guarantees and broaden eligibility to include more clients and business sectors. For example, one partner was able to reach out to startup businesses for the first time using the Dhamen Express mechanism. Other partners stated that the new system helped them to better manage risk, which made them more comfortable offering guaranteed loans to smaller businesses.

## VI. WHAT COULD HAVE BEEN IMPROVED?

Initial reception for the new Dhamen Express digital platform among clients and staff has been positive. However, the type of planning required for development of an IT solution is different than the terms of

reference for a typical management consultant. For one thing, the development and installation of a new system, and the capacity building that is required around that, often take more time and money than was planned for. More realistic and less ambitious assumptions about how long the technical product and capacity building process will take would improve similar interventions in the future.

## VII. LESSONS LEARNED

SOTUGAR recognized the **importance of feedback from clients** in adapting its products to market demands. In many ways, the development of the Dhamen Express product and platform are a testament to the importance of listening to client feedback. Cumbersome and slow application and claim processes, with heavy paperwork requirements, were major issues for many partners and inhibited use of SOTUGAR's guarantee products. Because they listened to feedback and used suggestions from clients to improve the user experience with the Dhamen Express product, one partner bank said that SOTUGAR has "transformed their reputation with banks."

A key to the success of JOBS' work with SOTUGAR on DFS was the **strong alignment of values and shared goal** of increasing access to finance for SMEs. The commitment of senior management to developing new services ensured that institutional willingness and capacity to develop and install new systems remained strong. SOTUGAR **demonstrated their commitment** to innovating to reach more SME clients in developing the Dhamen Express product. JOBS was able to add value by supporting increased efficiency and outreach through digitalization.

It is important to note that while digitalization was part of the planning process in developing the Dhamen Express product, it was preceded by **streamlining guarantee management and application processes**. Efficiency gains from digitalizing would have been significantly less if SOTUGAR had not begun with improvements to the flexibility of its systems and broadening its selection criteria. Improving the transparency of the application process and strengthening communications were key goals of the digitalization process and were baked into the design of the platform. To a significant extent, reduction in the processing time for guarantee approval was driven both by **process streamlining and by digitalization**.

As process improvement should precede digitalization, **capacity building** should follow the design and development of DFS solutions. Building the capacity of management, staff, and clients is key to both scale and sustainability of DFS interventions. This requires addressing ability and willingness to use the new systems. Ability to use the system can be taught with **training and technical support**. Willingness to use the system requires **behavioral change**, which can take longer and sometimes encounter more resistance than expected.

## VIII. NEXT STEPS

- Development of new DFS solutions should begin with listening to client needs.
- Shared values, strong leadership buy in, and demonstrated commitment to increasing access to finance are excellent indicators of a good partner for DFS interventions.
- Future DFS interventions should consider partners' capacity and constraints in planning support.
- For many institutions, process improvement needs to precede digitalization.
- Capacity building should be an integral part of the design of any DFS intervention of equal importance to strong technical design.