



Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

Date Prepared/Updated: 11/07/2018 | Report No: ESRSC00069



BASIC INFORMATION

A. Basic Project Data

Country	Region	Project ID	Parent Project ID (if any)
Tunisia	MIDDLE EAST AND NORTH AFRICA	P167380	
Project Name	Tunisia Innovative Startups and SMEs Project		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Finance, Competitiveness and Innovation	Investment Project Financing	1/14/2019	2/28/2019
Borrower(s)	Implementing Agency(ies)		
	Caisse de Depots et de Consignations		

Proposed Development Objective(s)

The Project Development Objective is to increase the growth of, and innovation in, selected startups and small and medium enterprises

Financing (in USD Million)	Amount
Total Project Cost	50.00

B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]

The project will be made up of three components: (i) Support for Innovative Startups; (ii) Support for Growth-Oriented SMEs; and (iii) Project Management, Coordination and Monitoring & Evaluation. Project activities will focus on enhancing firm capabilities for innovation and technology adoption and growth; filling the financing gap for innovative startups and SMEs; and building capacity within the entrepreneurship and innovation ecosystem to support high-growth innovative startups and SMEs.



D. Environmental and Social Overview

D.1. Project location(s) and salient characteristics relevant to the ES assessment [geographic, environmental, social]
 The proposed project is a World Bank loan to the Government for the purpose of increasing growth and innovation of select startups and small and medium enterprises in Tunisia. The Implementing Agencies are not confirmed as yet; however, project funds are preliminarily expected to flow through the state sovereign wealth fund, Caisse des Depots et Consignations (CDC), and the state guarantee company, Societe Tunisienne de Garantie (SOTUGAR), as the Implementing Agencies. The project is expected to provide two mechanisms of investment support to early stage startups (Component 1) and two mechanisms of investment support to SMEs (Component 2). The project will also provide Technical Assistance (TA) for capacity-building of startups and SMEs. The preliminary flow of funds is provided in Figure 1. The proposed project is a World Bank loan to the Government for the purpose of increasing growth and innovation of select startups and small and medium enterprises in Tunisia. The Implementing Agencies are not confirmed as yet; however, project funds are preliminarily expected to flow through the state sovereign wealth fund, Caisse des Depots et Consignations (CDC), and the state guarantee company, Societe Tunisienne de Garantie (SOTUGAR), as the Implementing Agencies. The project is expected to provide two mechanisms of investment support to early stage startups (Component 1) and two mechanisms of investment support to SMEs (Component 2). The project will also provide Technical Assistance (TA) for capacity-building of startups and SMEs. The preliminary flow of funds is provided in Figure 1. Figure 1 Preliminary Flow of Funds The early stage equity investment would be provided through an early stage equity fund, likely to be established and managed by CDC, that will support equity investment to startups through: (i) direct equity investment to Child Fund(s) that will invest in startups with funds specified for end use and ring-fenced; and (ii) equity co-investment in st

D. 2. Borrower’s Institutional Capacity

The Implementing Agencies are not yet confirmed, and the project implementation approach will be further refined during preparation. The Implementing Agencies will be confirmed prior to Appraisal. The CDC is likely to be one of the lead agencies implementing the project. The CDC has been involved in the implementation of the recently closed Tunisia MSME Financing Project (P124341, IBRD) which extended a USD150 million line of credit to MSMEs intermediated through financial sector institutions and has prior experience in environmental and social risk management in accordance with safeguard bank policies and not the ESF. CDC has set up an Environmental and Social Management Framework (ESMF) structure with an Environmental and Social focal point responsible for monitoring the implementation of the ESMF. During implementation of the MSME Financing Project, this structure was responsible for verifying the eligibility of the projects financed through the CDC, monitoring the preparation of the environmental assessments required, as well as periodic reporting to the WB. The CDC's environmental and social risk management capacity will be further assessed during project preparation. Institutional capacity of the likely second implementing entity, the SOTUGAR, will also be assessed during project preparation. Many financial institutions in Tunisia (investment funds, banks, etc.) have also acquired experience in managing environmental and social risk in line with the World Bank Safeguard policies during the implementation of the recently closed MSME Financing Project (P124341, IBRD). However, all the PFIs and some Responsible FIs for the proposed project (with the exception of the CDC and the SOTUGAR) are unlikely to be established or identified prior to Appraisal. As previously noted, eligibility requirements in the Operations Manual would include the requirement for PFIs to demonstrate capacity for ES risk management in line with the relevant ES Standards, including ESS9

Public Disclosure

II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC)

Moderate



Environmental Risk Rating

Moderate

The project is classified as Moderate Risk taking in account the nature and magnitude of the potential environmental and social risks and impacts of subprojects. No adverse impacts such as involuntary land acquisition, impacts on indigenous peoples, on biodiversity and habitats, on cultural heritage, are expected. While the project does not intend to restrict the sectors eligible for financing, potential FI sub-projects for which startups and SMEs would receive financing are generally expected to be in the technology, commercial and services sectors and not entail adverse environmental and social risks. The majority of the FI subprojects are expected to be Low Risk, specifically for investments in startups and SMEs at low ticket sizes (USD200,000 – USD500,000) and/or at low tenors (1-5 years). However, may be a small number of investments at higher ticket sizes/tenors, as well as a small number FI sub-projects which could potentially have some negative environmental and social impacts, particularly in the SMEs. This may raise the risk to Moderate Risk.

Social Risk Rating

Moderate

The project is classified as Moderate Risk taking in account the nature and magnitude of the potential social risks and impacts of subprojects. No adverse impacts such as involuntary land acquisition, impacts on indigenous peoples, or impacts linked to labor management are expected. While the project does not intend to restrict the sectors eligible for financing, potential FI sub-projects for which startups and SMEs would receive financing are generally expected to be in the technology, commercial and services sectors and will not entail adverse social risks. The majority of the FI subprojects are expected to be Low Risk, specifically for investments in startups and SMEs at low ticket sizes (USD200,000 – USD500,000) and/or at low tenors (1-5 years). However, a small number of investments at higher ticket sizes/tenors, as well as a small number FI sub-projects could potentially have negative social impacts, particularly in the SMEs. This may raise the risk to Moderate Risk.

B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

The E&S screening is based on (i) initial information collected from CDC and SOTUGAR on their environmental and social risk management approach (ii) the experience with the CDC and other FIs during the implementation of the recently closed MSME project. The Implementing Agencies, once determined, will establish environmental and social (E&S) risk management processes and procedures to be incorporated in the Operations Manual prior to Appraisal, for ensuring that the Responsible FIs and PFIs participating in the project implement the project consistent with the requirements of ESS9. These include eligibility criteria and E&S risk-based guidelines for prospective PFIs/Responsible FIs, systems for ensuring that relevant requirements of the ESSs are passed through to the Responsible FIs, verification that the Responsible FIs have established and implemented environmental and social management systems (ESMS), a framework for monitoring and reporting on the implementation of the Responsible FIs ESMSs and E&S risks of their portfolios, institutional and implementation arrangements including staffing. The implementing agencies will prepare and implement an operating manual incorporating all these processes and procedures. For the TA activities, the Implementing Agencies would incorporate reference to the E&S Standards in the TORs to ensure that the activities and outputs are in line with these standards. During preparation, the WB will undertake its due diligence on borrower and FI capacity, and further assess the relevance of ESSs for the project.



Areas where reliance on the Borrower’s E&S Framework may be considered:

The Borrower’s E&S Framework is not being considered for this project, either in whole or in part.

ESS10 Stakeholder Engagement and Information Disclosure

Primary stakeholders of the project would be, beyond the Implementing Agencies, the PFIs, and the startups and SMEs expecting to receive financing for sub-projects under the project. Other potential stakeholders could include employer representation (Chambers of Commerce or similar), labor representation and unions, and other CSOs involved in representation of enterprises and employees. The Implementing Agencies will prepare a Stakeholder Engagement Plan (SEP) prior to Appraisal consistent with the requirements of ESS10. The Responsible FIs and FI subprojects will put in place, as part of the ESMS, procedures for external communications on environmental and social matters proportionate to the risks and impacts of project activities consistent with the requirements of ESS9. The ESMS will also include establishing and maintain systems to respond to public enquiries and concerns are recorded and responded to in a timely manner.

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.

ESS2 Labor and Working Conditions

ESS2 applies to the internal labor management of the Responsible FIs involved in the project, which are not yet confirmed or known . The Responsible FIs, once identified, will have in place and maintain appropriate internal labor management procedures consistent with ESS2, including procedures relating to working conditions and terms of employment, nondiscrimination and equal opportunity, grievance mechanisms and occupational health and safety. The CDC and SOTUGAR, if confirmed as Responsible FIs, will also be required to establish and maintain labor management procedures consistent with the requirements of ESS2. The third responsible FI, the ESEF, will be required to establish and maintain a labor management plan once set-up.

ESS3 Resource Efficiency and Pollution Prevention and Management

At this stage, this ESS is not expected to be relevant to the project. Relevance of this ESS will be further reviewed during project preparation.

ESS4 Community Health and Safety

At this stage, this ESS is not expected to be relevant to the project. Relevance of this ESS will be further reviewed during project preparation.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

At this stage, this ESS is not expected to be relevant to the project. Relevance of this ESS will be further reviewed during project preparation.



ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

At this stage, this EES is not expected to be relevant to to the project. Relevance of this ESS will be further reviewed during project preparation.

ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities

At this stage, this ESS is not expected to be relevant to the project. Relevance of this ESS will be further reviewed during project preparation.

ESS8 Cultural Heritage

At this stage, this ESS is not expected to be relevant to the project. Relevance of this ESS will be further reviewed during project preparation.

ESS9 Financial Intermediaries

The Responsible FIs relevant to the project would be: (i) the Early Stage Equity Fund (ESEF) that will invest in or co-invest with Child Fund(s) for on-ward investments in startups with use of funds specified and ring-fenced ; (ii) the CDC with the PFIs (banks and/or private equity funds) in the quasi-equity line of credit for SMEs that will be provided for a specified end use and ring-fenced; and (iii) the SOTUGAR that will provide the partial credit guarantees for Banks for sub-loans to SMEs with use of funds specified and ring-fenced. Each of these three Responsible FIs will be required to establish and maintain an ESMS consistent with the requirements of ESS9. The ESMS’s should include, as provided in ESS9: E&S policy, procedures (screening, categorization, exclusions, assessments to prepare), capacity for assessing, managing, and monitoring risks and impacts of subprojects. All sub-projects will be assessed for their environmental and social risks prior to financing. The screening mechanism, as part of the procedures, will review and categorize the subprojects based on their E&S risk and screen all Moderate and Low Risk subprojects against the IFC FI Exclusion List and compliance with the relevant requirements of national law. For Substantial or High Risk FI subprojects, the procedures should either screen against investing in these firms or establish a process for notification of the Implementing Agency (and World Bank) prior to making investment decisions to upgrade the ESRC and implement adaptive management measures to ensure that relevant requirements of the ESSs can be met. The World Bank will undertake due diligence of the ESMS’s Responsible FIs identified during preparation; however, it is likely that one of the Responsible FIs will not be known prior to Appraisal. The World Bank will undertake consultations with potential PFIs, CDC, and SOTUGAR to determine their ES capacity and assess their existing ESMS’s, including prior experience interacting

Public Disclosure

B.3 Other Relevant Project Risks

At this stage, no specific relevant risks are identified that would impact the environmental and social assessment.

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways

No



OP 7.60 Projects in Disputed Areas

No

III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE

A. Is a common approach being considered?

No

B. Proposed Measures, Actions and Timing (Borrower’s commitments)

Actions to be completed prior to Bank Board Approval:

- Establish list of/criteria for activities to be excluded from financing by the FIs and the project.
- Implementing Agencies will prepare a stakeholder engagement plan (SEP) consistent with ESS10.
- Implementing Agencies will develop E&S risk management processes and procedures consistent with ESS1.
- Any Responsible FI identified prior to Appraisal will prepare labor management procedures consistent with ESS2.
- Any Responsible FI identified prior to Appraisal will prepare an ESMS.

Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):

Given the nature of the project, all the PFIs and some Responsible FIs participating in the financing components of the project are unlikely to be determined prior to Appraisal. Similarly, the TA service providers are likely to be identified and selected during project implementation. As such, the following issues will be addressed in the Borrower ESCP after Board Approval:

- Responsible FIs identified after Appraisal will develop ESMSs consistent with ESS9.
- Responsible FIs will implement ESMSs consistent with ESS9.
- Responsible FIs identified after Appraisal will develop and implement labor management procedures consistent with ESS2.
- Implementing Agencies will prepare TORs for TA supporting activities which will incorporate reference to ES Standards

C. Timing

Tentative target date for preparing the Appraisal Stage ESRS

10-Dec-2018

IV. CONTACT POINTS

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Borrower/Client/Recipient

Implementing Agency(ies)

Implementing Agency: Caisse de Depots et de Consignations

V. FOR MORE INFORMATION CONTACT

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VI. APPROVAL

Task Team Leader(s):	Fadwa Bennani
Safeguards Advisor ESSA	Nina Chee (SAESSA) Cleared on 15-Nov-2018 at 14:07:23
Practice Manager	Jean Denis Pesme (PMGR) Concurred on 20-Nov-2018 at 15:40:21