

MSME TA Facility TUNISIA

Completion Report P145960

Development Objective: To improve the business environment for MSME finance, build the capacity of financial institutions for sustainable financing, and support MSME business development services.

I. Pillar I: Enabling Environment

Program Overview of pillar I: Under this pillar, the WBG aimed at strengthening the policy and legal reforms in Tunisia.

FY 13

During the first year of implementation of the MSME TA Facility, the Bank delivered two activities:

- **Corporate Governance training (1/2).** The WB completed a training on Corporate Governance for the on-site supervision at the Central Bank of Tunisia (CBT) on December 2012. The training was very well received by market participants;
- **Raising awareness on Secured transactions.** In cooperation with the EBRD, the Bank and IFC held a workshop aiming at raising awareness of the stakeholders (banks, regulator, ministry of justice, lawyers). Later on, IFC launched a legal diagnostic on Secured Lending and conducted an institutional assessment to identify the most suitable party to host the Collateral Registry. Due to lack of appetite and competing post revolution priorities, the secured lending agenda was suspended until recently.

FY 14

During the second year of implementation of the MSME TA Facility, the Bank delivered the following activities:

- **Corporate Governance training (2/2).** In FY14, the World Bank pursued the work initiated in FY13 and delivered the first session of a targeted banking sector corporate governance capacity building program to the Central Bank and the Ministry of Finance (as shareholder of 8 state owned financial institutions). The session was open to the Insurance sector regulator. The session took place on November 14 and 15, 2013. An assessment of the training was done. All participants were satisfied or very satisfied and asked the WB team to provide more practical cases for the upcoming session;
- **Promoting banking sector competition through improved transparency.** The World Bank signed with the APP (a Tunisian Consumer Protection Association) a contract to conduct a survey aiming at comparing and rank fees and interest rates applied to SME projects by the Tunisian banks. This survey started in January 2014 and was conducted throughout the Tunisian territory. It targeted 3 public banks, 8 private banks, 1 private Islamic Bank, and 2

leasing companies. The outcome was made available to the public through a media campaign (radio, press, blogs). The objective was to spur banking sector competition on the SME segment;

- **Amending the Excessive Lending rate law.** In December 2013, the Bank and the CBT agreed on the Terms of Reference of a survey aiming at measuring the impact of the current regulation fixing a ceiling on interest rate. The conclusions of this survey, that was delivered in April 30, 2014, informed the CBT on the amendments to make to the legal framework on interest rate. The conclusions of this survey were discussed by the Board of the CBT. The decision to amend the legal framework on this point remains to be submitted to an inter-ministerial committee and to the new Parliament;
- **Extension of the Credit registry to the micro-finance industry (1/3).** In June 2014, the Bank provided technical assistance to the Central Bank and the Micro Finance Authority in drafting the terms of reference to extend the public credit registry to micro-finance institutions. Based on these TORs, an expression of interest has been launched in July 2014;
- **Analytical work on mobile money (1/2).** The Bank lead a demand-side analysis examining the mobile money and innovation landscape in Tunisia. The analysis included: i) a survey examining access to, usage of, and demand for mobile payments in Tunisia; ii) a review of applicable laws and regulations affecting mobile money and a review of current supervisory regimes in place; and iii) analysis of future operational models for mobile money expansion in Tunisia with attention to potential products and delivery channels. This survey was co-financed through the MSME TA facility and the MENA Multi-Donor Trust Fund (MDTF). It was delivered in April 2015 (see below);

FY 15

- **Extension of the Credit registry to the micro-finance industry (2/3).** In June 2014, the Bank provided technical assistance to the CBT and the Micro Finance Authority (MFA) in the drafting of terms of reference for the extension of the credit registry. A specialized consultancy firm was then selected and hired to carry out the technical changes;
- **Analytical work on mobile money (2/2).** In April 2015, the Bank finalized and disseminated the demand-side study. The study examined the financial behavior of low-income Tunisians and key barriers to adoption of mobile financial services. The study also examined the legal and regulatory framework for mobile money adoption and suggested operational models for the sector's development. The study was based on a survey of over 1,200 adults, with a focus on women and youth, confirmed the potential for developing digital financial services to promote financial inclusion, particularly to reach the rural and underserved. The study identified that 60% of Tunisia's population does not have access or has very limited use of formal financial services, 85% of the sample have never saved and do not think they have enough money to do so. The study developed an operational model for the sector's expansion and outlined key investments in market and financial infrastructure to be made. A market facilitation approach was launched alongside the study, which created a national steering committee to discuss interim findings and discuss policy implications. The WBG

organized a round table event on April 23, 2015, providing final results of the study. More than 90 stakeholders attended including public authorities (Central Bank, Ministry of Finance), mobile network operators, banks, microfinance institutions, and payment service providers. The event provided an analysis of the regulatory and legal environment underpinning mobile banking in Tunisia, and presented the results of a demand-side study on access/usage barrier, and an operational model to move the sector forward. Meetings with Central Bank, Ministry of Finance, and market players (e.g. MFIs, mobile network operators) were held to discuss follow up engagement. This work paved the way to legal and regulatory changes aiming at promoting mobile money in Tunisia.

FY 16

- **Extension of the Credit registry to the micro-finance industry (3/3).** The extended credit registry was operational in February 2016, after a six-month testing period working with the main MFIs in Tunisia. This work resulted in a sharp increase in the number of credit reports requested and obtained by the regulated financial institutions (for the micro-finance compartment, the Credit registry recorded 1,055,012 credit reports in 2017).

Results and projections for the “Number of credit reports” indicator			
Project	2015	2016	2017
Tunisia credit reporting	2,725,742	2,951,323	3,340,955

- **Out-of-court workout (1/2).** The Bank started providing technical assistance to the CBT and the Ministry of Finance to i) design a tailor made out-of-court debt restructuring framework, ii) introduce it and iii) build bankers’ capacity on implementing it.

FY 17

- **Credit Bureaus Law.** After providing technical assistance to the Central Bank and the Microfinance Authority to extend the public credit registry to micro-finance institutions, the Bank extended its TA in 2016 for the revision of the Credit Bureau law prepared by the ministry of Finance and the drafting of the implementing regulations that set the minimum requirements and obligations for operating credit bureaus. At this stage, further support is being requested on the following additional areas which are deemed critical by CBT for the supervision of credit bureaus in Tunisia: (i) putting in place a consumer protection framework, (ii) establishment of collaboration mechanisms with relevant supervisory authorities, and (iii) training and operational tools and protocols for onsite and offsite supervision by the CBT.
- **Out-of-court workout (2/2).** The WBG is supporting the development of a structured and transparent extra-judiciary mechanism which will provide further options for creditors and debtors, and complement the in-court procedures that are already in place. To date, the WBG (i) consulted with the private and public stakeholders on their need for such a framework and challenges they foresee; (ii) assessed Tunisia legal and customary context to identify potential obstacles to the introduction of an out-of-court workout (OCW) framework; and (iii) developed and provided to the Central Bank of Tunisia (BCT) the core OCW principles and standards (good faith, disclosure of information, confidentiality, standstill

period, rescue funding and transparency) to be used as a basis for the drafting of the BCT circular.

- **Secured transactions:** Thanks to the Project, the Ministry of Justice has prepared an advanced draft of the secured transactions law. The draft is currently being reviewed to align it further with international best practices and adapt it to Tunisia's local context. The draft law is expected to be submitted for approval to a ministerial cabinet no later than April 2018, following which it will be submitted to parliament. The project has also supported the delivery of an assessment of the institutional options for operation of the collateral registry under the new proposed secured transactions law considering well-accepted qualities and requirements for movable collateral registries worldwide and provided recommendations on the entity to host the registry. Additional assistance will be given to support the establishment of an electronic movable assets registry and to build capacity and raise awareness among registry stakeholders and users.

II. Pillar II: Advisory Services to Financial Institutions

Program Overview of the pillar II: Advisory services to financial institutions.

Under this pillar, the WBG planned to scale up MSME finance through improving MSME credit risk management of state owned banks, namely, Société Tunisienne de Banque (STB) and Caisse des Dépôts et des Consignations (CDC). These activities were extended to Banque de l'Habitat and Banque Nationale Agricole in FY17. In parallel, IFC team planned to conduct the following activities:

- (i) building the capacity of bankers by sharing knowledge of international best practices through the partnership with the Central Bank of Tunisia and the Tunisian Professional Association for Banks and Financial Institutions (APTBEF);
- (ii) building the capacity and improve institutional sustainability of private banks such as Amen Bank;
- (iii) building the capacity of Microfinance Institutions such as ENDA inter-arabe and preparing them for growth and transformation.

FY 14

- **Improving MSME credit risk management of state owned banks (1/4).** The Bank completed in January 2014 a competitive process to select a firm in order to conduct a comprehensive capacity building program to improve the MSME credit risk management of two banks. The capacity building program started in one state-owned financial institution ("Caisse des Dépôts et des Consignations").

FY 15

- **Improving MSME credit risk management of state owned banks (2/4).** The Bank continued delivering its TA to Caisse des Dépôts et des Consignations. It also conducted a comprehensive capacity building program to improve the MSME credit risk management the

Société Tunisienne de Banque (STB)- the largest State-owned Bank in Tunisia under restructuring.

FY 16

- **Improving MSME credit risk management of state owned banks (3/4).** The WB trained CDC and STB teams to use these tools appropriately (see activities conducted in FY14 and FY15)

FY 17

- **Improving MSME credit risk management of state owned banks (4/4).** In September 2016, the Bank initiated a new TA aiming at assisting three State Commercial Owned Banks (Société Tunisienne de Banque, Banque de l'Habitat and Banque Nationale Agricole) in their effort to establish an internal credit risk rating (ICRR). These ICRRs will be made soon (2018) mandatory by the Central Bank of Tunisia. These systems help banks to better discriminate their risk at the underwriting phase and to improve their risk portfolio surveillance system. This TA activity was co-funded by the Moussanada Fund, a multi-donor fund established in Tunisia in 2014 and aiming at, among other, finance the financial sector modernization plan adopted by the GoT (Moussanada is funded by SECO, UK and the EU). It is expected that the ICRRs will be delivered and effective by June 2018.

III. Pillar III: Support and Training to MSMEs

Program Overview of the pillar III: Providing support and training to MSMEs.

FY 14

- **Promoting entrepreneurship (1/2).** The Bank signed in December 2013 a partnership agreement with Maghreb Productions and Communications (MPC), owner of Express FM and number one radio business in Tunisia. Under this agreement, the Bank supported a second radio broadcast aiming at i) the promotion of 20 projects (a gender parity will be required) until the establishment of their business, and ii) the promotion of the entrepreneurship spirit and business literacy in the population, thanks to two periodic radio-broadcasted events. Approximately 60% of the program has been achieved during this FY.

FY 15

- **Promoting entrepreneurship (2/2).** The Bank pursued with the implementation of the partnership with Maghreb Productions and Communications (MPC). A ceremony to award the winners was held in September 2014. In total, there were 250 broadcasts, one thousand applications and 300 hours of coaching for the selected candidates.