PROJECT INFORMATION DOCUMENT (PID)
ADDITIONAL FINANCING

Report No.: PIDA3679

Project Name	TN-MSME Development Project Additional Financing (P146799)
Parent Project Name	MNA Micro, Small and Medium Enterprise Financing Facility (P124341)
Region	MIDDLE EAST AND NORTH AFRICA
Country	Tunisia
Sector(s)	SME Finance (100%)
Theme(s)	Micro, Small and Medium Enterprise support (100%)
Lending Instrument	Investment Project Financing
Project ID	P146799
Parent Project ID	P124341
Borrower(s)	GOVERMENT OF TUNISIA
Implementing Agency	Central Bank of Tunisia, Caisse des Depots et des Consignations
Environmental Category	F-Financial Intermediary Assessment
Date PID Prepared/Updated	25-Mar-2014
Date PID Approved/Disclosed	25-Mar-2014
Estimated Date of Appraisal Completion	28-Feb-2014
Estimated Date of Board Approval	17-Apr-2014
Decision	

I. Project Context

Country Context

Due to the absence to date of significant economic reforms combined with persistent political uncertainty, Tunisia continues to face a difficult economic outlook three years after the Revolution. Preliminary estimates for 2013 suggest that the recovery is losing momentum. GDP growth is expected at around 2.6 percent in 2013. Security tensions have impaired the tourism sector and adversely affected Foreign Direct Investments, while the recovery in the European Union remains sluggish. Moreover, the current macroeconomic situation does not allow for the continuation of expansionary policies making it more difficult for the interim Government to maintain in 2014 the relatively weak growth rate experienced in 2012 and 2013. The appointment in January 2014 of a technocrat Government as well as the adoption of the long awaited Constitution has brought a sense of optimism in the country and could pave the way for an acceleration of the reform agenda.

Sectoral and institutional Context

In this economic context, rising liquidity and credit risks put banks under pressure. Since the

revolution, different factors (economic downturn, security situation, and sliding foreign reserves) have put a downward pressure on the banking system liquidity prompting the Central Bank to massively inject liquidity in the system. The Central Bank of Tunisia (CBT) refinancing operations reached TND 7 billion (US$4.4 billion), which represent approximately 8 percent of GDP. These refinancing operations rose by 40 percent during the first half of 2013 (and then stabilized). Half of the 21 banks do not comply with the liquidity ratio. On average, the aggregated liquidity ratio reaches 81 percent (for a required minimum of 100 percent). Since September 2013, following the International Monetary Fund (IMF) recommendations, the CBT has started implementing more restrictive conditions for banks to access CBT liquidity. Tighter liquidity and limited interest from some companies (in particular those in the export activities) in expanding capacity have resulted in a slower credit growth to the economy by commercial banks (5.9 percent y-o-y at end-August 2013). Also, banks tend to adopt a more cautious stance given the negative outlook in terms of credit risk evolution. Non-performing loans (NPLs) resumed increasing in 2013 (from 13 percent in 2012 to 15.5 percent in June 2013) and 2014 credit growth, if any, is likely to be channeled toward less risky activities, such as loans to large companies, state owned entities and individuals (mortgage and consumer lending). It is expected though that Tunisian banks should also continue to finance credit-worthy MSMEs.

Further financial sector safeguard reforms will be implemented by the Government in 2014. Since the Revolution, the CBT has been strengthening the banking regulation (a corporate governance circular has been issued in 2011 while the minimum capital adequacy ratio has been raised from eight percent to nine percent and large exposure limits have been reduced), and new measures are expected in the short term. The Government has committed to restructure the public banking sector in 2014 (as a first step of this major reform, the Minister of Finance has issued in November 2013, a decree giving more autonomy to the top management of the public banks). The Government has also committed to put in place an Asset Management Company in order to resolve in a more dynamic way the tourism sector NPLs (which account for more than a quarter of the total NPLs) and to adopt a new bankruptcy law which would also contribute to decreasing the level of NPLs and to restoring Tunisian banks' appetite to lend. These measures will be supported by the Tunisia Third Governance, Opportunities and Jobs Development Policy Loan planned for FY15.

The MSME sector should remain the engine of Tunisia economic growth and one of the main providers of jobs. There are approximately 624,000 MSMEs (99.7 percent of the total number of enterprises in Tunisia) employing around 1.2 million workers (44 percent of the formal private sector workforce in Tunisia). Knowing that there are currently 620,000 people unemployed in Tunisia, any measure designed to support the development of MSMEs (creation, extension, restructuring) would have an impact on job creation. In their 2014 projections, the World Bank and the IMF consider that the economic growth (approximately three percent) will be mainly driven by the private sector. Given the weight of MSMEs as employers and in the potential creation of employment, supporting their creation and extension will definitely impact job creation. This is particularly the case when supporting entrepreneurs and startups, since young firms do account for a good share of productivity growth and net job creation.

II. Proposed Development Objectives

A. Current Project Development Objectives – Parent

The project development objective is to improve access to finance for micro, small and medium enterprises in Tunisia, including through enabling creditworthy MSMEs to maintain access to credit.

B. Proposed Project Development Objectives – Additional Financing (AF)

III. Project Description

Component Name

Lines of Credit

Comments (optional)

The Lines of Credit component will have two sub-components in order to do a better distinction between MSMEs (sub-component 1.1) and micro-entrepreneurs (sub-component 1.2)

Component Name

Patient financing

Comments (optional)

The new component on patient financing that will contribute to closing a gap in terms of financial products available in Tunisia.

IV. Financing *(in USD Million)*

Total Project Cost:	100.00	Total Bank Financing:	100.00
Financing Gap:	0.00		

For Loans/Credits/Others	**Amount**
Borrower	0.00
International Bank for Reconstruction and Development	100.00
Total	100.00

V. Implementation

The Central Bank of Tunisia and the Caisse des Depots et des Consignations will be the project implementing agencies for this AF, and will screen eligible participating financial institutions, disburse tranches, and monitor disbursement and compliance with agreed criteria.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	**Yes**	**No**
Environmental Assessment OP/BP 4.01	×	
Natural Habitats OP/BP 4.04		×
Forests OP/BP 4.36		×
Pest Management OP 4.09		×
Physical Cultural Resources OP/BP 4.11		×
Indigenous Peoples OP/BP 4.10		×
Involuntary Resettlement OP/BP 4.12		×
Safety of Dams OP/BP 4.37		×
Projects on International Waterways OP/BP 7.50		×
Projects in Disputed Areas OP/BP 7.60		×

Comments (optional)

VII. Contact point

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