Report Number : ICRR0021605

1. Project Data

Project ID	Project Name	
P124341	TN-MSME Financing Facility	
Country	**Practice Area(Lead)**	**Additional Financing**
Tunisia	Finance, Competitiveness and Innovation	P146799

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IBRD-80810,IBRD-83600	31-Jan-2017	125,186,166.16
Bank Approval Date	**Closing Date (Actual)**	
14-Jul-2011	31-Jul-2018	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	50,000,000.00	0.00
Revised Commitment	147,689,179.05	0.00
Actual	125,186,166.16	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

This Adaptable Program Loan (APL1) to Tunisia, was one of a series of APLs to countries in the World Bank's Middle East and North Africa (MENA) region, for creating a Medium, Small and Medium Enterprise (MSME) facility. This facility was intended to catalyze financing, risk-sharing and technical assistance activities, for addressing issues pertaining to access to finance for MSMEs in the MENA region, and thereby support improvements in MSME employment, competitiveness and incomes.

The Project Development Objective (PDO) as stated in the Loan Agreement (Schedule 1, page 5) and the Project Appraisal Document (PAD, page 13) of the APL1 to Tunisia:

" To improve access to finance for Micro, Small and Medium Enterprises (MSMEs) in the Republic of Tunisia, including through enabling previously creditworthy MSMEs to maintain access to credit"

The PDO did not change with the Additional Financing (AF) for the project on May 22,2014.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

At appraisal there was one component (PAD, page 20).

Line of Credit - LOC (appraisal estimate US$50 million; revised cost following AF was US$135 million; actual cost US$134.97 million). This component financed a LOC for participating financial institutions (PFIs). The LOC was to be used for financing loans to new MSMEs as well as provide refinancing facilities for existing loans of creditworthy MSMEs, experiencing temporary liquidity problems. Activities included technical assistance to the PFIs.The implementing agency for this component was the Central Bank of Tunisia (CBT).

In May 2014 the AF introduced a second component (described in the Project Paper for the AFA, para 16).

Access to financing by micro financing institutions (MFIs) (appraisal estimate US$15 million; actual cost US$15 million). This component provided additional financial support for SMEs through two new financial instruments; one, microfinance for small informal SMEs; and two, long term loans (“patient capital”) for larger SMEs. The implementing agency for this component was the *Caisse des Depots et des Consignations (CDC),* the Government Sovereign Fund for Economic Development.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project cost. The appraisal estimate was US$50 million. The revised estimate with AF according to Annex 3 in the ICR was US$150 million. The actual cost according to the Data Sheet in the ICR was US$125.19 million, but US$149.87 according to Annex 3 in the ICR.

Project financing. The project was financed by an IBRD loan of US$50.00 million and an AF of US$100.00 million. With this, Bank financing for the project was US$150.00 million. Amount disbursed US$125.19 million according to the Data Sheet in the ICR. The difference between the appraisal estimate and actual disbursements was due to the depreciation of the Tunisian Dinar during implementation. US$1.89 million of the loan was cancelled. There was co-financing of US$50.00 million for technical assistance activities from the African Development Bank.

Borrower contribution. None was planned at appraisal. There was no borrower contribution during implementation.

Dates and Restructuring. The project was approved on July 14, 2011 and became effective on April 4, 2012. The project closed on July 31,2018, 18 months later than planned at appraisal. Two changes were made to the project in the AF loan agreement, namely (a) as already noted above in Section 2d, two new financial instruments were added; and (b) the targets for intermediate indicators were scaled up and some intermediate indicators were disaggregated by gender (discussed in Section 9 of this review).

3. Relevance of Objectives

Rationale

The PDO was relevant to the country context. The PAD shows that SMEs employing under ten people accounted for about 87 percent of all Tunisian firms (Figure 1). The access to finance for such SMEs from the banking system remained limited in the wake of the economic and political instability in 2011 for a combination of factors, including liquidity problems of the banks, a rise in SME defaults, difficulties of obtaining aggregate credit information of SMEs, and a lack of standardized products in the banks for reducing the cost of lending to SMEs. These factors excluded many potentially creditworthy SMEs from accessing credit from banks. The PDO was therefore relevant to the Government program of 2011. This program highlighted the need for improving the capacity of the financial sector, which had been undermined by: (a) weak governance; and (b) inadequate credit instruments. The development plan prepared by the Constitutional Assembly in 2012, the year this project became effective, identified banking sector reforms as a priority.

The PDO was well-aligned with the Bank’s development strategy for Tunisia. The first pillar of the Country Partnership Strategy for the 2010-2013, underscored the need for promoting competitiveness and growth and specifically highlighted the need for financial sector reform (including through strengthening regulatory practices and encouraging innovative schemes for financing SMEs). The PDO was also relevant to two focus areas of the Bank's Interim Strategy Note for 2013-2014 which followed the Arab Spring upheavals: (a) laying the foundation for renewed sustainable growth and job creation; and (b) promoting social and economic inclusion. The PDO is well-aligned with two pillars of the Country Partnership Framework (CPF) for 2016-2020. The first pillar of the CPF focuses on strengthening economic and fiscal management and financial sector development for expanding access to credit for MSMEs (with a focus on women and young entrepreneurs). The second pillar focuses on the need for rural disparities and enhancing economic opportunities in rural areas.

Rating
High

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

To improve access to finance for Micro, Small and Medium Enterprises (MSMEs) in the Republic of Tunisia, including through enabling previously creditworthy MSMEs to maintain access to credit

Rationale

Theory of Change. Establishing a facility for financing new SMEs and refinancing facilities for existing SMEs experiencing temporary difficulties, aimed at increasing the access to finance for SMEs, from the banking system. Financial instruments such as microcredit for informal SMEs and long-term finance to larger formal SMEs, were pertinent for catering to the need of different types of SMEs. These instruments, with technical assistance to the PFIs, were expected to increase commercial bank lending to the MSME sector and thereby contribute to the long-term development objective of increasing incomes and employment, especially for the younger population.

Outputs.

Banks and leasing companies.

- 14 PFIs (eight banks and six leasing companies) participated in the program at closure. This exceeded the original and revised targets of four and nine respectively (ICR, table 2 and ICR, page 51).
- The ICR (paragraph 57) reports that across eight PFIs, 25% of the total volume of LOC was channeled through the banking sector and 55% of the credit allocated went to underdeveloped regions. The ICR notes that the pricing to PFIs was in line or more expensive than the market interest rate and the number of PFIs participating in the program continued despite an increase in pricing during implementation.
- The average return on assets (weighted by asset size) for the PFIs increased to 1.30% at project closure, exceeding the target of 1.20%.
- The portfolio at risk (defined as greater than 90 days) for MSME sub-loans declined to 0.79% at project closure. This was better than the target of three percent. 100% project-supported institutions reported on this indicator at closure, exceeding the target of 50%.

- Loan officers (or "staff") in the PFIs were trained on aspects relating to environmental and social screening during implementation.
- Technical assistance was provided for developing a credit reporting system.

Microfinance.

- The ICR (paragraph 65) reports that this subcomponent provided external financing at a time of significant sectoral change, with the introduction of for-profit Limited Liability Company. This subcomponent provided financing when access to finance from external resources for microfinance institutions was difficult and constrained due to the substantial foreign exchange risk during implementation.
- 156 start-up firms were financed (ICR, paragraph 55).

Patient capital financing.

- 14 "patient financing" arrangements (long-term finance for the larger SMEs), were concluded at project closure, through seven partnerships with private equity firms. This was slightly short of the target of 15. (ICR, paragraph 67).

Outcomes.

Banks and leasing companies.

- 917 MSME loans were financed by the PFIs at project closure. This exceeded both the original and revised targets of 250 and 379 respectively (ICR. Table Two, page 20).
- The volume of MSME loans financed by the LOC increased to US$53.00 million at project closure. This was short of the revised target of US$110.00 million. The volume of financing from the LOC to PFIs increased to US$53.00 million at project closure, short of the target of US$110.00 million (ICR, Table 2, page 20). The ICR (paragraph 49) notes that the achievement of these indicators was (respectively) below the targets for two reasons: One, the 30% depreciation of the Tunisian Dinar during implementation meant that the volume of loans was much higher in real terms. And two, the depreciation created considerable economic pressure on the SMEs, by increasing the cost of imported inputs. Nevertheless, despite missing the targets, there was an improvement in terms of access to finance for MSMEs.
- The total number of MSME loans in PFI portfolios increased to 79% at project closure. This exceeded the revised target of 13% by 600% (ICR, paragraph 49). At project closure, the total increase in the volume of outstanding MSME portfolio was 23% percent. This was short of the revised target of 25%. These indicators were calculated from a zero baseline.

- The ICR (paragraph 61) notes that about 46% of total financing was used by six leasing companies participating in the project (TND million out of TND 220 million). Loans provided by leasing companies were primarily medium term in nature and financed industrial equipment, assets related to business investment and real estate assets used by SMEs. About 33 percent of financing through leasing companies went to lagging regions.
- 17% of MSME loans by PFIs went to women-led SMEs at project closure, exceeding the revised target of 13% (ICR, Table 2, page 20).

Microfinance.

- 11,131 microfinance LOCs arrangements were negotiated between small SMEs and PFIs, with an average loan size of TND 3,900. This exceeded the target of 10,000.
- 47% of microfinance loans financed by the LOC were to women-led SMEs at closure. This was short of the revised target of 60% (ICR, Table 2, page 20).

Patient capital financing.

- US$8,333,333 of patient financing was provided under the project at closure. This was short of the revised target of US$15,000,000. The shortfall in target was mainly due to the exchange rate changes during implementation.

Conclusion. The outcome indicators confirm that access to many kinds of finance for MSMEs were improved during the period the project was implemented. Support for improved access to finance for MSMEs was a national program and hence the progress reported on improved access to finance for MSMEs was arguably due to this project. This review therefore concludes that the project contributed substantially to achieving the objective of improved access to finance for MSMEs.

Rating
Substantial

Rationale

There was only one objective rated Substantial.

Overall Efficacy Rating

Substantial

5. Efficiency

Economic benefits. The ICR (paragraph 73) provides evidence that the project contributed to several economic benefits: First, it had a multiplier effect on access to finance of MSMEs: Two, it aided in leveraging private sector financing for MSMEs: Three, it created employment. The ICR (paragraph 70) notes that the number of MSME loans in the PFIs portfolio increased by 79% (from TND 7,252 million to TND 8,911 million). This was about 600% more than the originally forecasted amount of 13% in the project results framework. The ICR (paragraph 73) notes that had the PFIs relied only on project financing, the result would have been an increase in the total loan portfolio to TND 7,702 million. There was thus a multiplier effect in the amount financed by PFIs; they were willing to shift resources (other than those financed using the project) for financing MSMEs. Through the project's patient capital financing facility, TND 49,00,000 was leveraged from private sector financing among the 14 participating SMEs. This represented a two-fold leverage effect. The ICR (page 28) also notes that according to the data provided by the Central Bank of Tunisia, 459 jobs were created and 64% of the investments were in regional centers. The ICR (page 29) stated that, based on an impact evaluation, 358 companies (out of the 917 enterprises financed by the project), created 2,619 jobs. Extrapolating this across the 917 enterprises financed by the project component, on average 5,206 direct jobs were created.

At appraisal a cost-benefit analysis was conducted for the LOC component, which accounted for 100 percent of the estimate appraised cost. The project benefits were assumed to come from increased financing to SMEs from the banking system (as opposed to their borrowing from the informal sector at higher rates). Other benefits were assumed to come from job creation and economic growth. The Net Present Value using nine percent discount rate was US$306,287.00 and the ex ante Economic Internal Rate of Return was 16 percent (PAD, page 100). The ICR (page 61) notes that actual data from the PFIs on LOCs and loans to MSMEs was unavailable from the Central Bank of Tunisia when the ICR was being prepared and that without detailed cost data from the PFIs of individual PFIs, economic analysis comparable to that done at appraisal could not be carried out at project closure.

Administrative Costs. The ICR (paragraph 70) notes that the three implementing agencies - the Central Bank of Tunisia, the Microfinance Supervisory Authority in charge of coordinating the microfinance component and the Government Sovereign Fund for Economic Development, did not charge administrative fees against the project, despite the significant time they dedicated to reporting and supervision. This aided in reducing administrative costs.

Operational Issues. Although the original project was fully disbursed as of April 2014, the ICR (paragraph 93) notes that there were ineligible expenditures associated with the nine eligible banks using the facility.
The ineligible expenditures noticed in January 2017, were rectified in December 2018 when the Bank received the final audit report (ICR, paragraph 93). The introduction of the patient capital added complexity to the

operation and was subject to implementation delays. However, these were rectified, and implementation of this activity took place in 2017 and 2018 (ICR, paragraph 99).

In sum, given that the project was able to generate a multiplier effect on MSME financing, leverage private sector financing for MSMEs and meet overall expectations about job creation for the young population, a priority for the country, this review concludes that the project substantially contributed to the efficiency of MSME financing by PFIs.

Efficiency Rating

Substantial

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal	✓	16.00	100.00 ☐Not Applicable
ICR Estimate		0	0 ☐Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

Relevance of the PDO to the government and Bank strategy is High. Efficacy of the single objective - To improve access to finance for Micro, Small and Medium Enterprises (MSMEs), including through enabling previously creditworthy MSMEs to maintain access to credit - is rated as Substantial, as the outcomes were realized for the most part. Efficiency is rated as Substantial, given that there is credible evidence that the project had a multiplier effect on MSME financing by PFIs, was able to leverage private sector financing to SMEs and create employment, a priority for the country.

a. Outcome Rating

Satisfactory

7. Risk to Development Outcome

Country and financial sector risks. There is risk to ongoing benefits from this project if the macroeconomic situation in Tunisia remains fragile, as it was when the project closed. The share of non-performing loans in the banking sector and ongoing scarcity of liquidity in the financial sector could still undermine the objective of improved access to finance of SMEs from the banking system.

8. Assessment of Bank Performance

a. Quality-at-Entry

The project was prepared based on the Bank's experience with a prior Bank-financed project in Sri Lanka with similar features (such as, financing LOCs and technical assistance components), recommendations from the Bank's 2013 Independent Evaluation Group assessment (*World Bank Lending for Lines of Credit*) and lessons from credit guarantee schemes from international best practices (PAD, paragraph 88). Lessons incorporated at design included: (i) complementing LOC measures with features such as risk-sharing arrangement to provide incentives for MSMEs, to use their own resources and leverage funding; (ii) technical assistance to the PFIs. and (iii) being flexible and not limiting the credit line to specific sectors or procurement terms (PAD, paragraphs 50, 51 and 59). The design fortunately included co-financing for complementary technical assistance activities from the African Development Bank.

Several risks were identified at appraisal, including High risks associated with lending in a political transition period when the financial sector was facing challenges, risks of lending to undercapitalized banks and capacity constraints of the PFIs. Mitigation measures incorporated at design, included transferring some stress tools to the Central Bank of Tunisia by the Bank for aiding supervision and technical assistance activities to the PFIs. Even with mitigation measures, the overall project risk was rated as High at appraisal, in view of the ongoing political instability at appraisal.

The implementation arrangements were appropriate. The Central Bank of Tunisia, the implementing agency for the LOC component, had a long track record of administering external funding for LOCs from both bilateral grants (from France, Italy, Spain and Japan) and multilateral banks (European Investment Bank, the African Development Bank and the World Bank), and was familiar with the World Bank's monitoring and reporting requirements for managing LOCs (PAD, paragraph 54). An additional implementation entity, the Deposit and Consignment Fund (Caisse des Depots et des Consignations), a sovereign fund, established by the government after the revolution, was added with the AF for the project. The arrangements made at appraisal for safeguards and fiduciary compliance were appropriate (discussed in Section 10 a and b).

Given that the PDO explicitly highlighted the need for enabling creditworthy MSMEs to maintain access to credit, the operational guidelines did not specify the modalities for financing SMEs facing temporary financial distress (ICR, paragraph 59). There were also shortcomings in M&E design (discussed in section 9a).

Quality-at-Entry Rating
Satisfactory

b. Quality of supervision

Three missions a year on average (much more than usual), were conducted during implementation and the supervision team included staff with relevant expertise (such as, on financial sector, results measurement and technical staff for providing advice on quality control (ICR, paragraph 114), The team aided in responding to the challenges during implementation such as, following the impact of the sharp depreciation of the Tunisian Dinar during implementation and addressing issues of ineligible expenditures (discussed in section 10b). The capacity building support provided by the team to the Central Bank, aided in monitoring project performance and compliance with environmental safeguards (ICR, page 11). The supervision team leveraged grant funding, and this aided in establishing a credit registry for the microfinance sector (ICR, paragraph 87).

Quality of Supervision Rating
Satisfactory

Overall Bank Performance Rating
Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The two key outcome indicators - the percentage increase in the total number and volume of MSME loans among the PFIs - were appropriate, for monitoring project performance with respect to improving access to finance for MSMEs. However, while the PDO explicitly mentions the need for enabling previously creditworthy MSMEs to maintain access to credit, there were no indicators explicitly aimed for monitoring this objective.

A standard set of specific monitoring templates was designed at appraisal, to ensure that the implementing agencies across all the APL borrowing countries used a similar approach, in collecting and reporting data (PAD, paragraph 68). The key outcome indicators were calculated from a zero baseline by the financial institutions. The design also called for impact evaluation assessments during implementation.

The new indicators that were added with the AF were appropriate. They included the number of new loans to women-led SMEs, the volume and number of micro credit loans and long-term loans (patient capital) for larger SMEs, provided under the project.

b. M&E Implementation

The Central Bank of Tunisia was in charge of data collection and monitoring project performance. The ICR (paragraph 102) notes that an impact evaluation was conducted in October 2013 and a final one was completed in 2018. The ICR notes that data from this evaluation included loan maturity, type of projects financed, sectoral composition and the number of new jobs generated by type of PFIs. The ICR (paragraph 106) notes there were methodological issues in the M&E system between 2014 and 2016. Specific issues included, not calculating indicators on all the PFIs and excluding aspects of the 'microfinance" and "patient financing" components. These issues were rectified in August 2017. The ICR provides no details on the methodology followed for the impact evaluation assessment.

c. M&E Utilization

The M&E data were used for pursuing policy dialogue on financial reform with authorities and donors during implementation, and monitoring performance at closure. The ICR (paragraph 104) notes that the credit registry system for the microfinance that was established, was also used by PFIs not participating in the project.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

The project was classified as a Category FI project (refers to a project where the World Bank provides funds to either banks or credit institutions for on-lending to financial institutions) These safeguard policies were triggered at appraisal: Environmental Assessment (OP/BP 4.01); Pest Management (op 4.09); Physical Cultural Resources (OP/BP 4.11). According to the PAD (paragraph 34), the PFIs were responsible for addressing the environmental and social impacts of the MSME sub-projects. A Master Environmental and

Social Management System (ESMS) was developed at appraisal at the regional level to identify, monitor and minimize potential social and environmental impacts at appraisal.

The ICR (paragraph 107) notes that an ESMS was developed in Tunisia by the National Agency for the Protection of the Environment. This included a screening mechanism to determine the environmental category of the subproject and mitigation measures for environmental and social safeguards. The ICR (paragraph 108) notes that a significant number of firms that applied for financing were not informed about the ESMS requirements in the first two years of the project. The ICR (paragraph 108) notes that the World Bank recruited a safeguards specialist to support the Central Bank of Tunisia to review and screen eligible projects and this aided in ensuring compliance with safeguard policies.

b. Fiduciary Compliance

Financial management. An assessment of the Central Bank of Tunisia, the implementing agency for the LOC component, conducted at appraisal, concluded that the CBT had the capacity to meet the World Bank's financial management requirements (PAD, paragraph 95). The ICR (paragraph 110) notes that the financial reports were submitted in a timely fashion. The ICR (paragraph 93) also notes that instances of ineligible expenditures noticed in January 2017, were rectified with the final audit report received by the World Bank in December 2018.

Procurement management. The PAD (paragraph 97) notes that procurement was not anticipated, given the type of operations supported by this project. The ICR (paragraph 115) notes that World Bank funds were not used to provide direct financing of goods, works or consulting services by the MSMEs within the scope of the project.

c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	---

Bank Performance	Satisfactory	Satisfactory	---
Quality of M&E	Substantial	Substantial	---
Quality of ICR		Substantial	---

12. Lessons

The ICR draws the following three lessons from the experience of implementing this project, with some adaptation of language.

(1) Introducing diversified credit instruments by financial institutions can lead to broadening the range of SME beneficiaries. In this project the addition of instruments such as microcredit to formal banking credit models helped in meeting the credit requirements of a broad range SMEs.

(2) Given that the results framework capturing the changes in the loan portfolios among PFIs may not adequately capture the overall social and economic impact of an LOC, it would be useful to supplement the results framework with impact evaluation exercises. The experience of this project showed that while the project successfully attained its objectives in terms of credit intermediation, the impact evaluation exercises, provided more information with regard to geographic and sectoral targets, generating employment and the ability to target women and youth with such interventions.

(3) A careful design of reporting requirements during implementation is required to ensure that project funds are being used efficiently, especially in activities pertaining to informal enterprises. For example, in this project, there were difficulties associated with monitoring the impact of microcredit on the employment created by informal enterprises (the SMEs receiving credit) because reporting requirements were not adequately designed.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is well-written and provides a detailed explanation of the financial instruments that were introduced during implementation. The ICR also provides a convincing explanation for the issues that arose during implementation, due to the significant depreciation of the Tunisian Dinar. It also candidly discusses the issues associated with ineligible expenditures. The ICR is consistent with the guidelines and draws good lessons from the experience of implementing this project.

The ICR is, however, unduly long (with the main text at 48 pages more than three times the recommended length of 15 pages) and could have benefited from better editing. Despite its length, it contains few details on the methodology followed for the two Impact Evaluations. A brief description of the methodology used in the Impact Evaluations and the main conclusions as an annex would have contributed significantly to the substance of the ICR.

a. Quality of ICR Rating

Substantial