Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 31-May-2020 | Report No: PIDA29427

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Tunisia	P173324	TUNISIA FIRST RESILIENCE AND RECOVERY EMERGENCY DEVELOPMENT POLICY FINANCING (P173324)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
MIDDLE EAST AND NORTH AFRICA	25-Jun-2020	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
REPUBLIC OF TUNISIA	Ministry of Development, Investment and International Cooperation		

Proposed Development Objective(s)

The program development objective is to support the Government of Tunisia effectively respond to the COVID-19 crisis and lay the foundation for strong post-crisis recovery by: (a) strengthening resilience and inclusion; (b) enabling private sector recovery; and (c) improving transparency and performance in the SOE sector.

Financing (in US$, Millions)

SUMMARY

Total Financing	175.00

DETAILS

Total World Bank Group Financing	175.00
World Bank Lending	175.00

Decision
Other

Explanation
The team was authorized to proceed with appraisal. Prior to authorization to negotiate, the team will submit the program document with an updated policy matrix to the ROC Chair.

B. Introduction and Context

Country Context

The proposed Resilience and Recovery (R2) Development Policy Financing (R2 DPF) is the first operation in a programmatic series of two operations. The operation is part of a well-coordinated and substantial international support package to help Tunisia respond to the COVID-19 crisis. This international support package includes: (1) parallel budget support operations jointly prepared by the World Bank Group (WBG), KfW, AFD, JICA and the AfDB with close coordination with the European Union. The financing package of the joint operation WBG/KfW/AFD/JICA/AfDB amounts to at least US$600-700 million in 2020; and (2) financial support from the IMF through a US$745 million Rapid Financing Instrument concluded in April 2020, which is expected to be followed by a new program since the 2016-2020 Extended Fund Facility (EFF) closed in March; (3) budget support from the European Union including a two-year 600 million Euro Macro Financial Assistance program.

The operation was prepared under an innovative donor platform on reforms in Tunisia. The programmatic nature of the proposed operation is critical for continued donor synergies under this platform and the international support to Tunisia. The WBG/KfW/AFD/JICA/AfDB parallel budget support operations have been an innovative and effective platform for collaboration with other donors and for joint support on reforms in Tunisia. This platform has supported Government of Tunisia develop a three-year reform program following high level missions in mid-2018 (led by EU Commissioner and World Bank Middle East and North Africa Vice President) followed by intense policy dialogue and technical missions.[1] This joint support includes sequenced disbursement milestones (including during the same calendar year) that serve as a continuous process of impulse and checks on reform progress. This coordinated approach is critical to support Tunisia stay the course of reform and to help GoT mobilize more financing in a more predictable manner.

The proposed operation is also motivated by the need to accelerate urgent policy actions to improve the resilience and post-pandemic recovery potential of the Tunisian economy and society. The COVID-19 pandemic has shown that expanding the coverage of safety nets, improving their governance and accelerating the uptake of digital services are critical in increasing the ability of the government to not only reach traditionally vulnerable households - the poor and near poor, workers in informal, part-time or seasonal occupations - but also reach a wider group of household within the social distancing context. As shown by the experience of several countries, accelerating digital (public and private) development in Tunisia is essential for the continuation of key services during COVID-19 pandemic-like shocks. Raising the potential of the economy to recover and reducing vulnerabilities will require tackling long-standing barriers to investment, trade and productivity. Some of these hurdles are the weak business environment, limited competition and private sector participation in infrastructure and productivity-enhancing sectors, and the declining and weak financial health of key SOEs. In addition, GoT is providing financial and other support to firms and households during the lockdown and thereby avoid a temporary crisis from having permanent impacts (e.g., bankruptcies of otherwise viable businesses) that would lower Tunisia’s potential output going forward. The operation’s aim is to advance reforms which ensures that liquidity support to firms primarily supports structurally viable businesses and is consistent with a process of creative destruction that improves the economy’s efficiency and potential output. Lastly, greater State effectiveness and transparency will help strengthen Tunisian citizens’ trust in Government and State institutions while consolidating social stability and cohesion in the context of a maturing but young democracy.

[1] The three-year program is built on the following four pillars, three of which are aligned with the proposed operation: a) improving the efficiency of transport, energy and digital payment services; b) strengthening the governance and improving the performance of SOEs; c) improving the performance of the public sector and management of public finances; d) promoting economic and social inclusion.

The DPF supports three inter-dependent pillars in the government's reform program, namely to (1) accelerate safety net reforms and financial inclusion, which are critical to mitigating the impact of the COVID19 crisis and building stronger social and economic resilience to shocks; (2) enable private sector recovery by leveraging private sector financing and know-how in infrastructure (in port and logistics, and energy), opening access to the air transport market (Open sky) and by improving the framework for rapid, efficient resolution of NPLs, including for state-owned banks; and (3) improve the transparency and performance of SOEs.

The COVID-19 health, social and economic crisis hit the Tunisian economy while it was already in a long period of low growth and declining potential output. GDP growth averaged only 1.8 percent per annum in 2011-2018 compared to 4 percent in 2001-2005 and 4.5 percent in 2006-2010. In 2019 growth slowed down to 1 percent from 2.7 percent in 2018 , as Tunisia experienced several major political events (death of President Essebsi, holding of early presidential and parliamentary elections), industrial production contracted, agricultural growth fell and despite a good performance of tradable services. Prior to the COVID-19 crisis, growth in 2020 was only projected at 1.5 percent. The WB estimates that Tunisia's potential GDP growth has dropped by 2 to 2.5 percentage points in the past fifteen years due to declining physical and human capital, persistently low productivity and lower competitiveness.

The COVID-19 crisis will exacerbate Tunisia's growth challenges in the short and possibly medium-term. Tunisia has introduced aggressive health and containment measures to combat the COVID-19 pandemic including a lockdown since March 20, 2020 which started to be eased during the first week of May as the number of cases plateaued. A GoT/WB study estimates that a month-long lockdown would reduce growth by 0.9 percentage points in 2020. The report shows that two to three months of lockdown would impact the highly exposed export-oriented sectors (mechanical and electrical products, textiles, etc.), services (tourism, commerce) and transport sectors. In the worst-case scenario analyzed, growth would drop by up to 4.5-5 percentage points in 2020 relative to the pre-COVID-19 baseline projections, and lead to the worst recession recorded since the 1960s. These negative growth effects would be accentuated by a projected sharp decline in investment, domestic demand and productivity as the crisis deepens (including through recurring COVID-19 outbreaks until effective, widespread treatment or vaccines are available). Recently published official statistics also point to a significant economic contraction: during the first quarter of 2020 growth contracted by 1.7 percent year-on-year due to sharp recessions in export-oriented manufacturing sectors (-9 percent in mechanical and electrical products, -15.3 percent in textile) and in services (-3.4 percent) and despite strong growth in agriculture (+7.1 percent) and agri-business (+20.3 percent) due to record olive oil production.

Relationship to CPF

The proposed operation is aligned with the WBG twin goals of ending extreme poverty and boosting shared prosperity in a sustainable manner. It contributes to the implementation of the WBG MENA strategy by promoting reforms that foster entrepreneurship and encourage private investment and trade, in line with its pillars on renewing the social contract and regional cooperation. The proposed operation supports the Government in achieving its social and economic vision of inclusive and sustainable development as outlined in the Five-Year Development Plan 2016-2020. It is directly linked to the objectives outlined in the WBG Tunisia Country Partnership Framework (CPF) for 2016-2020 under Pillar 1 (Restoring an Environment Conducive to Sustainable Economic Growth and Private Sector-Led Job creation) and Pillar 3 (Promoting Increased Social Inclusion).

C. Proposed Development Objective(s)

The program development objective is to support the Government of Tunisia effectively respond to the COVID-19 crisis and lay the foundation for strong post-crisis recovery by: (a) strengthening resilience and inclusion; (b) enabling private sector recovery; and (c) improving transparency and performance in the SOE sector.

Key Results

The proposed operation supports three inter-dependent pillars in the government's reform program, namely to (1) accelerate safety net reforms and financial inclusion, which are critical to mitigating the impact of the COVID19 crisis and building stronger social and economic resilience to shocks; (2) enable private sector recovery by leveraging private sector financing and know-how in infrastructure (in port and logistics, and energy), opening access to the air transport market (Open sky) and by improving the framework for rapid, efficient resolution of NPLs, including for state-owned banks; and (3) improve the transparency and performance of SOEs. The proposed operation is part of a broader engagement and is complemented by TA and other operations to support reform implementation (i.e., WBG operations in the energy sector and for Govtech, as well as SOE and financial sector TA programs).

D. Project Description

The proposed Resilience and Recovery (R2) Development Policy Financing (R2 DPF), in the amount of US$175 million, is the first operation in a programmatic series of two operations. The PDO is to support the Government of Tunisia (GoT) effectively respond to the COVID-19 crisis and lay the foundation for strong post-crisis recovery. The proposed operation is motivated by an urgent need to (1) strengthen macroeconomic buffers and resilience that are severely tested by the rapid and deep global recession created by the COVID-19 pandemic; and (2) deepen the implementation of longstanding structural reforms - which have become even more critical and pressing in light of the impact of the COVID-19 crisis on growth, poverty reduction and shared prosperity - more specifically those aiming at: (a) strengthening resilience and inclusion; (b) enabling private sector recovery; and (c) improving transparency and performance in the SOE sector.

E. Implementation

Institutional and Implementation Arrangements

The operation will be implemented through the coordination mechanisms provided by the Ministry of Development, Investment and International Cooperation.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impact

Overall, the proposed operation is expected to have a positive impact on poverty and vulnerability thanks to the strong emphasis on protecting the poorest and improving the identification and targeting mechanisms Pillar 1. These prior actions will contribute to creating a more efficient social protection system than can effectively identify and target the population groups most affected by the crisis. Notably, those involving the implementation of the citizen digital identification and the introduction of a new targeting model can sensibly reduce at the same time exclusion errors in the programs by identifying households that were initially excluded as well as inclusion errors and make resources available for those who deserve it the most. Additionally, compensatory transfer measures initiated by the government and supported by this DPF will have a positive impact on poverty. Specifically, providing temporary unemployment benefits (TND 200) for workers who will be affected by partial unemployment on a one-off basis by mid-May will lead to a reduction in poverty by two percentage points (national poverty line) or by 2.2 percentage points using the US$5.5 PPP poverty line. In fact, this compensatory measure is expected to impact the bottom 40 percent distribution the most (See Annex 5 for a detailed analysis of all compensatory measures).

Environmental, Forests, and Other Natural Resource Aspects

An environmental analysis was conducted as part of preparation of this operation and concluded that the DPF supported policies are not likely to have negative impacts on Tunisia, and that the implementation of the majority of proposed policies may lead to positive impacts. However, some prior actions may lead to adverse environmental impacts if the required Environmental Impact Assessments (EIA) and mitigation plans are not prepared and implemented adequately.

G. Risks and Mitigation

The overall residual risk rating of this operation is estimated at High. The major residual risks to the operation's ability to achieve its development objective include: (a) Political and Governance risks; (b) Macroeconomic risks; (c) Institutional Capacity for Implementation and Sustainability; (d) Stakeholder risks; and I Security risks. These risks are either rated as High or Substantial and are described below. Residual risks related to (i) Sector Strategies and Policies, (ii) Technical Design of Project or Program, (iii) Fiduciary, and (iv) Environmental and Social, are rated as Moderate. The Bank will closely monitor these risks, which are mitigated through technical assistance and government ownership.

CONTACT POINT

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APPROVAL

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