Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 22-Feb-2021 | Report No: PIDC236712

BASIC INFORMATION

A. Basic Project Data

Project ID	Parent Project ID (if any)	Environmental and Social Risk Classification	Project Name
P175641		Moderate	Support to Economic Recovery and Job Creation in the Agri-Food Sector and Rural North West
Region	**Country**	**Date PID Prepared**	**Estimated Date of Approval**
MIDDLE EAST AND NORTH AFRICA	Tunisia	22-Feb-2021	
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Microfinanza SRL	Microfinanza	

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	1.23
Total Financing	1.23
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing	
Trust Funds	1.23
Free-standing Single Purpose Trust Fund	1.23

B. Introduction and Context

Country Context

Tunisia faces a fragile macroeconomic situation. Annual growth in gross domestic product (GDP) was two percent in 2017 and 2.6 percent in 2018. In 2019, annual growth was of one percent while GDP per capita was US $3,298. Growth is mainly driven by the agriculture and services sectors. While the poverty headcount stands at 15 percent (national poverty, 2015), the World Bank estimates that up to a third of the population is poor or vulnerable to poverty. This figure reaches over fifty percent in rural areas. The economy faces challenges in terms of low productivity, stagnant employment, high inflation, high deficits and debt and limited fiscal space. External challenges have intensified as Tunisia's main export markets are heading towards a recession, while one tenth of the economy is dependent on tourism. Inflation slowed down to 6.7 percent on average in 2019, down from a peak of 7.7 percent in July 2018, thanks to tighter monetary policy and the Tunisian Dinar (TND) appreciation (275 basis points hike in the policy rate, reduced central bank refinancing, tighter enforcement of loan-to-deposit ratios). However, inflation accelerated to 6.2 percent only two weeks after the lockdown, due notably to the disruption of supply chain and uncertainty. The unemployment rate stood at 14.9 percent in 2019, slightly down from 15 percent in 2018. In absolute terms, the unemployed are largely low-skilled workers. However, university graduates have the highest unemployment rate (27.8 percent). Unemployment rates are also higher for youth (33.8 percent), women (21.7 percent against 12.1 percent for men) - especially for educated women (38.1 percent of female graduates against 15.7 percent for male graduates) - and in lagging regions off the coast. Tunisia's fiscal and external situation has also gradually deteriorated in past years, the public debt-to-GDP ratio has continued to increase and stood at 72.2 percent in 2019, above the 70 percent benchmark for emerging market debt burden.

The COVID-19 crisis will exacerbate Tunisia's growth challenges in the short and medium-term. Tunisia introduced aggressive health and containment measures to combat the COVID-19 pandemic including a four-month lockdown from March to June 2020. While the government has lifted strict containment measures, trade and tourism face shocks and are heavily affected, which is further slowing the economy. Another effect of the crisis will be through intensified pressure on the already narrow fiscal space of the Government of Tunisia, which will in turn put pressure on the provision of social services during and after the economic downturn. A Government of Tunisia (GoT)/Bank impact study estimates that a month-long lockdown reduces growth by 0.9 percentage points1. The report shows that the lockdown has already impacted the highly exposed export-oriented sectors (mechanical and electrical products, textiles, etc.), the services (tourism, commerce) and the transport sectors and may reduce growth in 2020 by at least 4 percentage points. These negative growth effects could be accentuated by a projected sharp decline in investment, domestic demand and productivity as the crisis lengthens and deepens (including through recurring COVID-19 outbreaks until effective, widespread treatment or vaccines are available). The crisis is also amplifying risks to poverty and vulnerability with one third of the population vulnerable to poverty, reaching over fifty percent in rural areas. These impacts will be more intense for the most vulnerable groups such as the unemployed, informal workers, children, and the elderly.

Sectoral and Institutional Context

The agri-food sector remains an essential driver of economic growth and still represents the main source of income and employment in rural areas. Over the past years, the share of agriculture in GDP has increased from 7.8 percent in 2008 to more than 10 percent in 2018 and is even greater when all upstream and downstream activities of agricultural production (overall agri-food sector) are accounted for. One out of six jobs remain in the agricultural sector, and more half of the jobs in the North-Western Governorates. The farming structure in Tunisia is characterized by a dual system with medium- and large-scale family farms in lowland areas and small-scale farmers in remote and mountainous areas. Medium and large farms (20-50 ha and above) are well connected to markets, able to capture public subsidies but rely on relatively extensive farming systems with investment limited by unclarified land ownership among family members. On the other side, small scale farmers own on average 10 ha with more than 50 percent of them with less than 5 ha. Their farming systems primarily aim at ensuring family self-consumption with tradable surpluses when possible. They are constrained by fragmented land, limited access to markets, no dedicated or easily accessible financial and non-financial public support. Due to male emigration, many small-scale farms are female headed. Many rural people have also created, formally or informally, small agri-businesses engaged in various agro-processing activities. Such activities can range from dairy processing, honey production, essential oil distillation to handy crafts and rural tourism. While difficult to estimate, those activities represent a large part of the incomes of small-scale producers in rural areas. Better organization, linkage to markets, access to finance and knowledge, could help those Small and Medium Entreprises (SMEs) connect with larger private aggregators in urban centers, thus developing their businesses and creating more jobs.

Although small in size, small-scale producers ensure 60 percent of the national cereal production but are not sufficiently organized to play a significant role in value chain coordination. All sector reviews highlight the fact that the existing producer organizations (POs), in the form of *Groupements de Développement Agricole* (GDAs) and *Sociétés Mutuelles de Services Agricoles* (SMSAs),[1] are the weakest links in agri-food value chains and in all forms of trading partnerships. Small farmers in Tunisia need to cooperate and join forces to create economies of scales that will improve their competitiveness, bargaining power, access to domestic and export markets, and knowledge sharing and innovation. In a context where the Government does not have the human and financial resources to deliver such services to smallholders, and where the private sector does not have the incentives to fill the gap, POs can aggregate smallholder producers' demand and help achieve economies of scale to develop technically and financially viable services. Through aggregation, they can attract private investors and enter in various trading arrangements or collaborative partnerships with larger companies (contract farming, productive alliances, etc.). With sound and lasting support from various donors, some GDAs, SMSAs and SMEs have been emerging as credible and reliable partners in trading partnership or as solid service providers to their members. As observed around the world, POs can become a source of job and career opportunities for educated youth, such as technicians from agriculture vocational training centers and agri-engineers from agronomic university.

In 2019, the Government of Netherlands and the World Bank established the Tunisian Rural and Agricultural Chains of Employment Program (TRACE) to help respond to the job creation and small holder inclusion challenges in the agri-food sector and rural areas. TRACE is a hybrid Trust Fund (TF), financed a Dutch contribution of 13.5M Euros, and will be implemented over a period of four years. Its development objective is to create jobs in the agri-food sector by strengthening the productivity and resilience of small-scale producers, and competitiveness of agribusiness cooperatives and SMEs in selected agri-food sub-sectors through better access to knowledge, innovations and financial services. To stimulate job creation, TRACE will act on the following four dimensions (four components of the program): (1) stimulating the agri-entrepreneurship mindset and skills of rural people, especially youth and women; (2)

expanding the network and professionalism of producer organizations (GDAs, SMSAs, coops, etc.) and agri-SMEs able to connect producers to market opportunities and to required services; (3) developing the range and quality of financial and non-financial services for farmers, agribusiness SMEs, and value chain stakeholders; and, (4) improving the business environment and policy framework to stimulate the growth of a market-oriented and private sector-driven agri-food sector. Components 1, 2 and 4 are Bank-executed (BETF). Under component 2, it is proposed to establish a matching grant to help POs and SMEs develop their business and create more jobs. This matching grant will be implemented by a Tunisian institution as a Recipient-executed Trust Fund (RETF) subject of this Inception Note. It will covered the Governorate of Jendouba.

[1] GDAs are primary level of producer association (non-for-profit) and SMSAs are cooperative-equivalent to deliver services to their members, including access to inputs, advisory services, post-harvest processing and marketing.

Relationship to CPF

The proposed Project (RETF) is fully aligned to the WBG Country Partnership Framework (CPF) as a relevant contribution to the development of traditionally neglected areas in a sector with growth, job creation and social inclusion potential. As such, the project objective is fully aligned with pillars 2 and 3 of the WBG CPF that aims at reducing regional disparities and promoting increased social inclusion. This also consistent with the WBG Middle East and North Africa Regional Strategy pillar on renewing the social contract, by supporting the generation of employment opportunities, in particular in inland regions, and with a focus on youth and women, thus helping to forge greater social stability.

C. Project Development Objective(s)

Proposed Development Objective(s)

The Project development objective is to help restore and promote job creation in the agri-food sector in the targeted Governorates.

Key Results

Key results for the targeted Governorate of Jendouba:

1. Number of direct and indirect jobs created (gender disaggregated).
2. Number of grants approved and signed.
3. Number of beneficiaries that have recorded improved productivity.
4. Number of beneficiaries that have recorded increased profit
5. Number beneficiaries that have implemented 70% of their business plan

D. Preliminary Description

Activities/Components

Component 1 - Technical assistance to POs and SMEs

The implementation of the proposed matching grant instrument will require technical assistance to POs and SMEs to prepare and select technically sound and financially and commercially viable investment projects. An implementing agency will deliver this technical assistance. It will disseminate information to potential PO and SME investors, including reaching out more specifically to youth and women entrepreneurs, and organize calls for proposals. This will include facilitating the dialogue with relevant authorities, private sector associations, and other stakeholders to ensure that the investment project submission are consistent with the understanding of the territory and the opportunities and constraints of the sector/segments. The implementing agency will help POs and SMEs develop technically sound and commercially viable business. It will ensure that investment project proposals submitted to TRACE Matching Grant have a strong potential to be profitable and sustainable to ensure business growth and create jobs, while improving producers' resilience and economic inclusion.

To ensure the success of selected investment projects, the implementing agency will also provide technical assistance during implementation, either directly or by linking POs and SMEs with specialized technical and managerial expertise. The implementing agency will act as a facilitator to help POs and SMEs access additional support from public and private service providers and connect with larger business enterprises and agro-industries to receive advice to properly adjust to market requirements. It will assist in grouping POs and SMEs with similar needs and investment projects to achieve economies of scale, increase their bargaining power in value chains, pull financial and technical resources together, avoid duplication and share costs, network to share experience. Increasing the scale of business activities will ensure sustainability of the jobs created and will generate additional jobs, while indirectly generating job creation for suppliers and clients of POs and SMEs

Component 2 - Grants for agri-food and rural job creation

TRACE Matching Grant will provide non-reimbursable financial contributions (grants) to investment projects submitted by POs and SMEs engaged in agri-business activities ranging from production, processing to marketing with the objective to help business growth and job creation. Grants will be capped to 70% of the cost of the proposed investment project and will finance small-scale equipment and inputs, and soft activities (technical and managerial training and advice, marketing guidance and market intelligence, etc.). Eligible activities will cover the wide range of opportunities offered by the agri-food sector and agri-rural entrepreneurship ranging from: farming production and processing, agri-service providers (input and technology supplies, advisory services, etc.), to post-harvest operations (storage, processing, packing, etc.). This will also cover the valorization of cultural and natural resources through handy craft and rural tourism.

Investment projects will therefore be in, but not limited to, agro-industry, agro-food, apiculture, aromatic and medicinal plants, valorization of natural resources, agro-tourism.

Selection will prioritize investments technically sound and commercially viable, with high job creation potential, tangible scale and identified markets, partnerships with other producers, private aggregators, agro-industries and other commercial entities. Selection will be done through competitive calls for proposals for each window with differentiated criteria and financing thresholds depending on the type of beneficiary. Applicants will benefit from technical assistance delivered by the implementing agency to improve the quality of proposals. Ad hoc experts may be invited to provide specific expertise to improve proposals. POs and SMEs which have been successful in achieving 70% of the objective of their first investment projects will be eligible for a second grant without going through the competitive selection process. The objective is to ensure impact sustainability and encourage successful POs and make them future champions. A regional Technical

Committee will be responsible of the selection of proposals and monitoring of implementation. It will include representatives from regional governmental entities, experts and private sector representatives. Ad hoc experts may be invited to provide specific expertise to improve the proposals. The Technical Committee will also conduct regular assessments of the implementation process and advise the team on strategic and technical issues.

Component 3 - Project management and coordination.

The Project will provide resources to the implementing agency (see information below) to properly deliver technical assistance and operate the matching grant, while meeting the Bank's fiduciary and safeguards requirements. The implementing agency will have to provide (technical and fiduciary) monitoring reports, will report progress against TRACE objectives and indicators, will be subject to regular fiduciary verification, annual audits and technical supervision. It will coordinate with other Government's operations and donor-funded projects, looking for cooperation and potential synergies. Implementation will also be closely coordinated with the other TRACE technical assistance activity managed by the Bank under the BETF on specific skills development such as smart agriculture, market intelligence, access to export markets, online/digital marketing, e-commerce, among others

Environmental and Social Standards Relevance

E. Relevant Standards

ESS Standards		Relevance
ESS 1	Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10	Stakeholder Engagement and Information Disclosure	Relevant
ESS 2	Labor and Working Conditions	Relevant
ESS 3	Resource Efficiency and Pollution Prevention and Management	Relevant

ESS 4	Community Health and Safety	Relevant
ESS 5	Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6	Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
ESS 7	Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
ESS 8	Cultural Heritage	Not Currently Relevant
ESS 9	Financial Intermediaries	Not Currently Relevant

Legal Operational Policies

Safeguard Policies	Triggered	Explanation (Optional)
Projects on International Waterways OP 7.50	No	
Projects in Disputed Areas OP 7.60	No	

Summary of Screening of Environmental and Social Risks and Impacts

The project is expected to generate moderate environmental and social risks associated with minor civil works (i.e. renovations) and exploitation of agricultural activities. Key environmental risks include solid waste generation, hazardous material management, noise and vibration, wastewater discharges and emissions that could impact air quality, water and energy consumption, sustainable land and water management, the use of pesticides and risks related to hygiene and food handing. Key social risks include the potential for elite capture and the lack of transparency of and poor communication on eligibility criteria to benefit from the matching grant program. Finally, the project entails risks associated with poor or inadequate working conditions and failure to protect the labor force, such as the use of child labor, and the exploitation of agricultural labor, including migrant labor. Finally, the risk of COVID-19 transmission or exposure as a result of project activities has been identified as a transversal risk.

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