Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 20-Jan-2025 | Report No: PIDDC01197

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BASIC INFORMATION

A. Basic Project Data

Operation Name	Operation Short Name
Support to Job Creation in the Agri-Food Sector and Rural Space	TN: Agri-jobs
Operation ID	**Financing Instrument**
P509237	Investment Project Financing (IPF)
Beneficiary country/countries	**Region**
Tunisia	Tunisia
Environmental and Social Risk Classification	
Moderate	
Date PID Prepared	**Estimated Date of Approval**
03-Dec-2024	28-Feb-2025
Borrower(s)	**Implementing Agency**
Microfinanza SRL	Microfinanza SRL

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Operation Cost	**4.00**
Total Financing	**4.00**
Financing Gap	**0.00**

DETAILS

Non-World Bank Group Financing

Trust Funds	4.00
Free-standing Single Purpose Trust Fund	4.00

B. Introduction & Context

Country Context

Tunisia continues to face a challenging macroeconomic situation. Economic performance decelerated after 2011 and deteriorated further due to the COVID-19 pandemic. With a population of 12.5 million, a Gross Domestic Product (GDP) of US$51.1 billion, and a GDP per capita of US$4,104 as of 2023, Tunisia is considered a middle-income country.

However, GDP growth declined to 1.7 percent on average between 2011 and 2019, down from 3.5 percent between 2000 and 2011. Economic performance has stagnated due to a significant decline in productivity growth: low investment, limited innovation, reduced trade orientation, and excessive regulation of economic activity have been major contributing factors. Private investment as a share of GDP dropped from an average of 17.4 percent of GDP in 2000-2010 to 14.9 percent in 2011-2019. The COVID-19 pandemic exacerbated these vulnerabilities, causing an 8.7 percent drop in GDP in 2020, while the economic recovery has been moderate since with 4.4 percent growth in 2021, 2.2 percent growth in 2022, zero growth in 2023, and 0.6 percent in the first half of 2024. By the end of 2024, Tunisia is expected to be the only country among its regional peers with real GDP still below its pre-pandemic level.

Tunisia's challenging economic situation is negatively affecting its population. Macroeconomic indicators such as public debt, unemployment, labor participation, inflation, and poverty levels have deteriorated. Public debt nearly doubled from 40.7 percent of GDP in 2010 to 79.6 percent in 2023, limiting the state's fiscal space to invest in public programs. Tunisia has one of the highest unemployment rates in the MENA region at 16 percent as of the second quarter of 2024. The labor force participation rate stood at 45.8 percent in the same period, 1.5 percentage points below the pre-pandemic rate, suggesting a high number of discouraged workers. Women continued to have a much lower participation rate than men (27.9 versus 65.2 percent) and a higher unemployment rate (21.4 versus 13.6 percent). Despite decreasing from its 10.4 percent peak in February 2023, inflation remained high at 6.7 percent in September 2024. Food inflation continued to be even higher at 9.2 percent in September 2024 as drought and lower imports reduced the supply in domestic food markets. Economic growth had been pro-poor from 2000 to 2015, reducing poverty levels from 25.4 percent to 15.2 percent. However, this positive trend has been reversed as the poverty rate has risen from 15.2 percent in 2015 to 16.6 percent in 2021.

After a large drop in production in 2023 due to severe drought, Tunisia's agricultural sector grew 5 percent in the first half of 2024, recovering a third of the losses experienced in the same period in 2023. The main reason for this slow recovery is the persistence of drought conditions, which have affected Tunisia since 2015, resulting in 8 dry years out of 9, including 5 consecutive years since 2019. Rainfall during the 2023/2024 agricultural season (as of end of August 2024) was 64 percent of the average historical level across Tunisia, with rains often occurring away from dam catchment areas or too late in the cereal cycle, affecting crop quality. This has caused water inflows to dams in the season 2023/24 to drop on average to 37 percent of historic levels. The lack of rainfall during critical periods for cereal crops led to an estimated cereal production of 1.1 million tons, well below the historic average of 1.8 million tons. These conditions have also impacted dairy production through reductions in cereal and fodder production, resulting in a 9 percent drop in livestock numbers in January 2024 compared to a year earlier. Fruits and vegetables were also affected. For example, cultivated areas of the seasonal tomato crop shrank from 16,000 hectares in 2021 to 11,500 hectares in 2023, and only partially recovered to 13,800 hectares in 2024 due to the restrictions on water available for irrigation.

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 6.8 percent in 2010 to 9.5 percent in 2023[1] 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 than 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 and obtain public subsidies; however, they rely on relatively extensive farming systems with investment limited by unclarified land ownership among family members. Small scale farmers own on average 10 ha with more than 50 percent of them with less than 5 ha. Their farming systems 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 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 and 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, and access to finance and knowledge could help these Small and Medium Entreprises (SMEs) to 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) are the weakest links in agri-food value chains and in all forms of trading partnerships. Small farmers in Tunisia need to cooperate 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 resources to deliver such services to smallholders, and where the private sector does not have the incentives to provide these services, POs can fill the gap. Through aggregation, POs can attract private investors and enter in various trading arrangements or collaborative partnerships with larger companies (contract farming, productive alliances, etc.). With sound support from various donors, some POs 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 vocational training centers and engineers from universities.

In 2019, the Government of Netherlands and the World Bank established the Tunisian Rural and Agricultural Chains of Employment (TRACE) Program to support job creation and small holder inclusion in the agri-food sector and rural areas. TRACE is a hybrid Trust Fund (TF), financed by a Dutch contribution of US$23,125,000, which is being implemented until the end of 2026. 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 is acting on the following four dimensions: (i) addressing the mismatch between the supply and demand of skills in the agri-food sector; (ii) expanding the network and professionalism of producer organizations and agri-SMEs able to connect producers to market opportunities and required services; (iii) developing the range and quality of financial and non-financial services for farmers, agribusiness SMEs, and value chain stakeholders; and (iv) improving the business environment and policy framework to stimulate the growth of a market-oriented and private sector-driven agri-food sector. Activities under Dimensions 1, 2 and 4 are Bank-Executed Trust Fund (BETF) activities. Under Dimension 2, it is proposed to establish a fourth entrepreneurship support matching project to continue supporting POs and SMEs to develop their business and create more jobs through technical and financial assistance. This proposed project will be implemented by Microfinanza as a Recipient-Executed Trust Fund (RETF) project – subject of this Inception Note. The proposed RETF project will cover the four governorates in the North-West of Tunisia and capitalize on the activities previously undertaken by two other TRACE RETF projects (P174017 & P175641) in the same region.

[1] https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?locations=TN

Relationship to CPF

The proposed RETF project is fully aligned with the WBG Country Partnership Framework (CPF) for FY23-27, particularly its first high-level objective (HLO) of quality jobs created by the private sector as well as the gender cross-cutting theme. In particular, the proposed Project is aligned with HLO1.2 (supporting access to finance for viable and innovative SMEs and startups) and HLO1.3 (reducing regional economic disparities). The proposed Project will also include a gender focus to support the economic inclusion of women. This proposed Project is also consistent withthe WBG Middle East and North Africa Regional Strategy pillar on renewing the social contract, by supporting the generation of employment opportunities, particularly interior regions, and with a focus on youth and women, thus helping to forge greater social stability.

C. Development Objective

Development Objective

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

Key Results

190 beneficiaries to be assisted in order to create around 1,420 direct and indirect jobs.

D. Preliminary Description

Activities/Components

Component 1 - Technical assistance to POs and SMEs

The implementation of the entrepreneurship support project will require technical assistance (TA) to SMEs and POs for preparing and selecting technically sound and financially and commercially viable beneficiary sub-projects. Microfinanza – the implementing agency – will deliver this TA directly or through technical partners. The agency will disseminate information to potential POs and SMEs, with a special focus for youth and women entrepreneurs, to select candidates through both an open counter system and calls for proposals depending on the target. This dissemination will include facilitating the dialogue with relevant authorities, private sector associations, and other stakeholders to ensure that the investment sub-project submissions are consistent with the nature of the region and the opportunities and constraints of the sector. The Project will help POs and SMEs develop technically sound and commercially viable businesses through tailored TA. This TA will be delivered individually or in cohorts, based on the specific needs and maturity of the applicants' sub-projects. The TA will ensure that investment sub-project proposals submitted to the Project have a strong potential to be profitable and sustainable, ensuring business growth and creating jobs, while also improving producers' resilience and economic inclusion.

To ensure the success of selected investment sub-projects, the implementing agency will also provide TA during implementation, either directly or by linking POs and SMEs with specialized technical and managerial expertise. The implementing agency will provide this second phase of TA directly and/or 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 in order to properly adjust to market requirements. The assistance will be provided individually to more developed POs and SMEs as a form of acceleration support, while less developed POs and SMEs will be grouped into cohorts to achieve economies of scale in the incubation of their initiatives. The overall objective of the technical assistance is to professionalize and expand businesses, increase bargaining power in value chains, improve financial and technical resources, and network to share experiences and best practices. Increasing the scale, productivity, and resilience of business activities will ensure sustainability of the jobs created and will generate additional jobs over time, while indirectly generating job creation for suppliers and clients of the POs and SMEs supported.

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

The TRACE entrepreneurship support project will provide non-reimbursable financial contributions (matching grants) to investment sub-projects submitted by POs and SMEs engaged in agri-business activities with the overall objective to help business growth and job creation. For more developed candidates that receive acceleration support, matching grants will be capped to 30% of the cost of the proposed investments. Furthermore, this category of beneficiaries will be required to obtain credit from a bank, leasing company and/or supplier. The maximum grant size for acceleration beneficiaries will be 90,000 TND. For less developed candidates that receive incubation support, grants will be capped to 90% of the cost of the proposed investments. Obtaining credit will be encouraged, but it will not be a requirement for this category of beneficiaries. The maximum grant size for incubation beneficiaries will be 20,000 TND for SMEs and 70,000 TND for POs. For both categories of beneficiaries, the grants will finance small-scale equipment and inputs as well as 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 agro-rural entrepreneurship. These activities can range from farming production and processing to agro-service providers (input and technology supplies, advisory services, etc.) and post-harvest operations (storage, processing, packing, etc.). Eligible investment initiatives also include the valorization of cultural and natural resources through handy crafts and rural tourism. Investment sub-projects will therefore be in, but not limited to, agro-industry, agro-food, apiculture, aromatic and medicinal plants, valorization of natural resources, and agro-tourism.
Selection will prioritize investments with high job creation potential that are technically sound and commercially viable. Other factors to be considered include tangible scale, identified markets, and partnerships with other producers, private aggregators, agro-industries and other commercial entities. Selection will be done through an open counter system and competitive calls for proposals with differentiated criteria and financing thresholds depending on the type of beneficiary and the type of support (incubation or acceleration). Applicants will benefit from technical assistance delivered by the Project to improve the quality of proposals. SMEs and POs which have been successful in achieving 70% of the objective of their first investment projects and continue to have a high potential for job creation will be eligible for a second grant without going through the competitive selection process. The objective is to ensure impact sustainability and encourage successful SMEs and POs to continue creating jobs. A regional Technical Committee will be responsible of the selection of incubation proposals and monitoring of their implementation. It will include representatives from regional governmental entities, experts, and private sector representatives. The Technical Committee will also conduct assessments of the implementation process and advise the team on strategic and technical issues. The implementing agency will be responsible for acceleration proposals and monitor their implementation to ensure timely and tailored support.
Component 3 - Project management and coordination.
The Project will provide resources to the implementing agency to properly deliver TA and matching grants, while meeting the Bank's fiduciary and safeguards requirements. The implementing agency will have to provide technical and fiduciary monitoring reports as well as report progress against TRACE objectives and indicators on a semesterly basis. The agency will be subject to regular fiduciary verification, annual audits, and technical supervision. The agency will coordinate with other Government's operations and donor-funded projects, avoiding duplication and looking for cooperation and potential synergies. Implementation will also be closely coordinated with other TRACE activities and projects on topics including, but not limited to, skills development, 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	Not Currently Relevant
ESS 7: Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
ESS 8: Cultural Heritage	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 Area OP 7.60	No	

Summary of Screening of Environmental and Social Risks and Impacts

The environmental risk rating for this project is considered moderate. The project involves moderate-risk activities especially for component 2 of the project. Environmental risks will entail minor construction works risks, such as renovations. Environmental risks related to civil works will be limited to the construction phase, and may include waste generation, hazardous material management, noise and vibration, wastewater discharges and air quality as well as occupational and community health and safety. Other environmental risks/impacts associated with the matching grant relate to the operational phase, and are linked to water and energy consumption, hygiene and food requirements, land and water management, the use of pesticides, manure and veterinary waste management. Social risks for this project are assessed moderate and entail the exclusion of vulnerable groups from job creation and related economic opportunities whereas screened SEA/SH risks have been assessed low. At the same time this project is supposed to maximize the advantages for youth and women by avoiding discrimination and elite captures. In addition, the project will contribute to the creation of direct and indirect job opportunities in disadvantageous four governorates of North-west of Tunisia (1420 direct and indirect job opportunities) and eligibility criteria of POs and SMEs to project activities under component 1 and 2 should be determined and agreed upon by stakeholder during consultative meetings. Other social risks are pertaining to non-meaningful consultations including the involvment of vulnerable groups representatives and to labor and working conditions: Minimum age, forced labor, OHS risks including SEA/SH risks. Mitigation measures of the above-mentioned risks – will be provided by several E&S instruments, notably SEP, ESMF, ESMPs. ESIA will be required for some subprojects and will be prepared and implemented in part under the Recipient System.

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