a. Relevance of Objectives

Before the 2011 revolution, Tunisia's economic policies delivered growth rates higher than the regional average in addition to lower poverty rates and substantial improvements in indicators of human development. At the same time, the policies did not correct economic distortions that had slowed the growth of employment and generated economic and social disparities both at the household and regional levels. The constitutional reform of 2014 and the democratic election of governments opened the doors to structural reforms to help address the economic distortions that constrained growth and favored a small group of people. To address these issues, the government issued in 2015 a guidance note on its development strategy and in 2017 published its Five-Year Development Plan (2016-2020) focused on "economic efficiency based on innovation and partnership, social inclusion and sustainable development."

The World Bank's Systematic Country Diagnostic (SCD, 2015) identified five constraints to growth and inclusion, of which this DPL supported actions that touched on three of the constraints: business environment, access to finance by firms and households, and infrastructure, connectivity and trade logistics. The government's guidance note and the SCD steered the design of the World Bank's Country Partnership Framework (CPF) 2016-2020 and its three pillars. The CPF Pillar 1: Restoring an Environment Conducive to Sustainable Economic Growth and Private Sector-Led Job Creation, had the objectives of (a) strengthening macroeconomic and fiscal management; (b) improving the enabling environment for private sector competitiveness, and (c) fostering sound financial sector development. Objectives (b) and (c) were supported by this DPL. The program's objectives were aligned with the government's Five–Year Development Plan and with Pillar 1 of the CPF 2016-2020. Specifically, the program supported the government's Development Plan in business climate and promotion of private investment (Axis 2) and financing of the economy (Axis 3). Also, Pillar 1 of the CPF was supported by the operation's two policy areas of (a) improving the business environment (competition, private investment, logistics) and (b) supporting entrepreneurship and deepening access to finance (access to credit, bankruptcy, and rules for seed and equity capital).

b. Relevance of Prior Actions

Rationale

Policy Area 1. Business environment

PA #1 – competition policy. The relevance of PA#1 is *Highly Satisfactory.*

The prior action sought to increase competition in the internal market by addressing shortcomings in competition policy: (a) lack of an adequate legal framework to promote competition within the private sector and between private sector companies and state-owned enterprises; (b) lack of government capacity to enforce competition policy; (c) ineffective enforcement of antitrust policy and dilution of enforcement responsibilities among agencies; (d) government support for public sector state-owned enterprises. The legislation gave more power to the Competition Council (relative to the Ministry of Commerce), created incentives to encourage the detection of cartels, reduced the costs of mergers in the private sector and reduced the administrative costs to the government of reviewing mergers. The relevance of PA#1 is *Highly Satisfactory.*

PA#2 – private investment. The relevance of PA#2 is *Satisfactory.*

The prior action sought to reinforce the rights and guarantees of investors and improve the access of private investors to the Tunisian market. The new Investment Law and the implementation decree sought to correct shortcomings of the existing law such as legal guarantees and restrictions on access to certain markets. The law (a) adopted a general framework for investment and moved away from a tax incentives–only approach; (b) focused on financial incentives (in contrast to tax incentives); (c) reduced the regulator’s discretionary power by adopting the principle of “silence is approval”; (d) liberalized recruitment for expatriate managers; and (e) reduced the number of activities subject to authorization when foreign ownership exceeds 49 percent.

PA#3 – public investment management. The relevance of PA#3 is *Highly Satisfactory.*

The prior action sought to reduce the losses in public investment by changing processes in the investment cycle. Processes were estimated to cost the country some 30 percent of the amount invested. To achieve the savings the government established a unified public investment management framework for public investment projects (PIP) and public private partnership (PPP) projects that covered the appraisal, selection and prioritization, financing modalities and continuous monitoring of all investment projects. This PA is precondition for improved public investment management. Effectiveness will require subsequent attention and support to apply the framework. World Bank management informs that the "Bank has been providing significant technical assistance and training to government officials to support the application of the framework."

PA#4 – port procedures. The relevance of PA#4 is *Satisfactory.*

The prior action sought to stem the decline in port productivity by improving container management through the digitalization of all port procedures. One important port procedure that had been optional but became mandatory was to submit electronic notice of the arrival of merchandise. Better management was expected to reduce dwell time (e.g., the amount of time that cargo or ships spend within a port) from 16.6 days in 2016 to 12 days in 2018.

Overall, the relevance of prior actions in Policy Area 1 is *Satisfactory*.

Policy Area 2. Entrepreneurship and access to finance

PA#5 - seed and equity capital. The relevance of PA#5 is *Moderately Unsatisfactory*.

Regulations for venture capital-type financing constrained the financing for young firms. The regulations required multiple approvals and submission of information to protect investors while entrepreneurs wanted less protection and regulation. The prior action aimed at cutting the regulatory burden on sophisticated investors and introducing new financial vehicles and corporate forms in the country. The prior action lacked sufficient relevance because it consisted of the Council of Ministers approving a *draft* code for seed and equity capital and the Head of Government transmitting the draft to Parliament. Because the law had not been approved its potential impact on the regulatory burden was uncertain.

PA#6 – credit information. The relevance of PA#6 is *Moderately Unsatisfactory*.

Laws and regulations governing the financial sector did not support the operation of credit bureaus, and their absence led to lack of information about borrowers’ creditworthiness. As a result, creditworthy borrowers were often unable to obtain credit from financial institutions. The prior action was aimed at eliminating these barriers and authorizing the operation of credit bureau companies that would help produce information about entrepreneurs and young micro, small and medium enterprises so they can have access to credit. The prior