AFRICAN DEVELOPMENT BANK

TUNISIA

FINANCIAL SECTOR MODERNIZATION SUPPORT PROGRAMME (PAMSFI)

PROJECT COMPLETION REPORT

(PCR)

RDGN DEPARTMENT

July 2018

Translated Document

FINANCIAL SECTOR MODERNIZATION SUPPORT PROGRAMME (PAMSFI) -- COMPLETION REPORT

AFRICAN DEVELOPMENT BANK GROUP

A Report Data

Report date	Date of report:	**Draft 27 April 2018**	
	Date of mission *(if field mission)*	From: 23 April 2018	To: 26 April 2018

B Responsible Bank staff

Positions	At approval	At completion
Regional Director	Mr. J. KOLSTER	Mr. M. EL AZIZI
Country Manager	Mrs. Y. FAL	Mrs. Y. FAL
Sector Director	Mr. S. NALLETAMBY	Mr. S. NALLETAMBY
Sector Manager	Mrs. S. KILONZO	
Task Manager	Mr. E. DIRRA , Chief Economist OFSD3	Mr. T. ACHRAF, - Principal Economist RDGN.3
Alternate Task Manager	Mr. T. ACHRAF, Principal Economist, RDGN3	Mr. T. ACHRAF, - Principal Economist RDGN.3
PCR Team Leader		Mr. T. ACHRAF, - Principal Economist RDGN.3
PCR Team Members		Mrs. ZOUKPO SANANKOUA, AKANE , Principal Capital Markets Officer Mr. A. MAHDI, Financial Analyst Consultant, RDGN3

C Project data

Project name: Tunisia: Financial Sector Modernization Support Programme (PAMSFI)				
Project code: P-TN-HZ0-002	**Financing Instrument number(s):** 2000200000252			
Project type: Budget support	Sector: Financial Sector			
Country: Tunisia	**Environmental categorization: (1-3)** 3			
Processing milestones – Bank approved financing only (add/delete rows depending on the number of financing sources)	**Key Events (Bank approved financing only)**		**Disbursements and closing dates (Bank approved financing only)**	
Financing source/ instrument1: AfDB Loan	**Financing source/ instrument**		**Financing source/ instrument1: AfDB Loan**	
Date approved: 13/07/2016	Cancelled amounts:		Original date of 1st disbursement: 20/10/2016	
Date signed: 14/07/2016	Supplementary financing: 0		Original closing date: **31/12/2017**	
Date of entry into force: 17/08/2016	Restructuring *(specify date and amount concerned)*: N/A		Revised disbursement deadline *(if applicable)*: 9 months	
Date effective for 1st disbursement: 13 **11/10/2016**	Extensions:		Revised closing date *(if applicable)*:	
Date of actual 1st disbursement: **20/10/2016**				
Financing source (UA)	**Amount disbursed (amount, UA):**	**Percentage disbursed (%):**	**Amount disbursed (UA)**	**Percentage undisbursed (%):**
Financing source/ instrument 1: AfBD Loan -- Single tranche disbursement	212,700,000	100%		
TOTAL	**212,700,000**	**100%**		
Co-financiers and other external partners: **N/A**				
Executing and implementing agency (ies): **Treasury and External Finance Directorate (DTFE)** ***(Ministry of Economy and Finance)***				

D Management review and comments

Report reviewed by	Name	Date reviewed	Remarks
Country Manager	**Mrs. Y. FAL**		.
Regional Director	**Mr Mohamed . EL AZIZI**		
Sector Division Head	**Mr. T. ACHRAF**		
Sector Director	**Mr. S. NALLETAMBY**		

II Project performance assessment

A Relevance

1. Relevance of project development objective

Rating*	Narrative assessment
4	PAMSFI aimed to help create conditions for accelerated, resilient and inclusive economic growth by strengthening the financial sector's role in financing the economy and vulnerable segments of the population. It aimed to help eliminate important challenges (low access to SME financing, low diversification level, low financial inclusion rate, etc.) that characterized the Tunisian financial sector. Moreover, the programme supported the emergence of a new development model for Tunisia, in which the private sector can develop and create employment throughout Tunisia, and where the population's disadvantaged segments can contribute to, and benefit from growth. Thus, Bank assistance was justified by the need to support Government-initiated priority financial sector reforms as part of its economic structural transformation objective. PAMSFI's specific objectives were to strengthen and deepen financial sector governance through the improvement of access by the population and businesses to financial services and the diversification of financial instruments.

***** *For all ratings in the PCR use the following scale: 4 (Highly satisfactory), 3 (Satisfactory), 2 (Unsatisfactory), 1 (Highly unsatisfactory)*

2. Relevance of project design

Rating*	Narrative assessment
4	Despite Government efforts, important challenges remain that must be addressed for the financial sector to play its expected role of financing the Tunisian economy and the economic inclusion of the poor. Among the Tunisian financial sector's main constraints and challenges that were identified during the PAMSFI appraisal, there are: (i) weak financial inclusion (financial inclusion rate of 36%) with a poorly diversified offer of, and limited accessibility to financial services; (ii) cumbersome and inefficient regulations, lack of reliable data to assess customer risks; (iii) poor access to financing adapted to MSMEs; (iv) Tunisian capital markets' lack of depth and attractiveness. Faced with this situation, Tunisian financial sector reform became a centre of focus in the 2016-2020 National Reform Programme. It aimed among other things at: (i) economic diversification through a favourable business climate and better access to financing; (ii) better human development and social inclusion; and (iii) regional development through accelerated public investment to develop adequate infrastructure and access to financing. Improving economic financing is one of the seven National Reform Programme's key pillars. The components identified for this pillar are: (i) improving the regulatory and governance framework; (ii) strengthening banking supervision; (iii) building banking sector resilience by completing the restructuring and upgrading of the banking system; (iv) improving financial inclusion; (v) improving access to financing for micro enterprises, SMEs, innovative enterprises at risk; and (vi) deepening capital markets. By supporting these priorities, PAMSFI's objectives and components responded to the Government's concerns and retained as focus areas: (i) improving financial inclusion through support for microfinance development reforms and mobile financial services, (ii) access to credit for regional enterprises, women and small farmers, and new project promoters, especially young people; and (iii) strengthening financial sector resilience and developing capital markets for greater and more efficient financing of the economy.

3. Lessons learned related to relevance

Key issues	Lessons learned	Target audience
Alignment with the country's needs for better ownership of the measures.	PAMSFI has continued some of the key actions of previous programmes, including the three reform support operations to assist with democratic transition and growth recovery in Tunisia. PAMSFI-supported measures helped to consolidate and deepen achievements. However, with regard to the design and implementation of some structural reforms, capacity building needs should be better assessed and identified in relation to AfDB-supported measures. Bank assistance should align with the reform implementation schedule.	Bank, Government
Strengthen the links, synergy and complementarity of other Bank operations	The programme supplements the lines of credit granted to local banks, particularly those supporting the promotion of SMEs. PAMSFI also supplements Bank-supported infrastructure sector investment projects These projects aim to improve competitiveness by reducing private sector production costs, whereas the proposed programme supports this effort by facilitating business access to financing. Lastly, the project supplements the Inclusive Regional Development Support Programme (PADRI).	Bank, Government
The need for continued environmental improvement efforts for private sector growth and economic diversification	The Tunisian economy has shown great resilience to both internal and external difficulties. To reinforce the current economic recovery, it is necessary to accelerate reforms by prioritizing measures to improve the business environment and economic diversification.	Bank, Government
The programme design should take sufficient account of the socio-political risk	Despite the establishment of Second Republic institutions following elections at the end of December 2014, and the improvement of security conditions, the socio-political situation remains fragile with repeated changes of Government, especially officials in charge of the economic and financial portfolio. This has had an impact on compliance with the implementation schedule of measures. Moreover, the lack of a peaceful social dialogue framework has delayed progress in some key reforms with a significant impact on economic recovery and macroeconomic and social stability. The programme design took into account the socio-political context.	Bank, Government

B Effectiveness

1. Progress Towards The Programme's Development Objective

Remarks

PAMSFI's goal was to help create conditions for strong and inclusive economic growth by strengthening the financial sector's role in financing the economy and vulnerable segments of the population. In this context, the programme supported the implementation of reforms needed to strengthen and deepen financial sector governance by improving access by the population and businesses to financial services and diversifying financial instruments. In this regard, the programme built on two (2) complementary components: (i) improving financial inclusion to reduce social and regional disparities: supporting reforms for the development of microfinance and mobile financial services and facilitating access to credit for loans to businesses in underprivileged regions and social segments; and (ii) strengthening financial sector resilience and developing capital markets for efficient financing of the economy by modernizing the legal and regulatory framework governing the financial sector.

At macroeconomic level, the security policy established during the programme period clearly bore fruit, particularly with regard to tourism, which increased by 32% in 2017 and has improved the balance of payments and contributed to limit the level of depreciation of the dinar. However, despite this slight recovery in GDP growth of around 2.2% for 2017, following the 1.1% and 1.0% recorded respectively in 2015 and 2016, it remained insufficient to really influence unemployment (around 15%), especially of graduates, in excess of 30%, in the context of a widening budget and current account deficit.

In terms of the economy's competitiveness, the continuous depreciation of the dinar, which lost 17.9% of its value against the euro and nearly 5.8% against the US dollar in 2017, remains a major concern. The latter has not had the desired effect of strengthening the competitiveness of exports and reducing the trade deficit. However, the decline of the dinar, Europe's recovery and ongoing reforms to improve the business environment will contribute to strengthen economic growth. The improvement of competitiveness remains dependent on an acceleration of structural reforms, a rise in the industrial apparatus to meet external demand and easing of the cyclical nature of agricultural sector growth. Implementation of the financial inclusion strategy planned for 2108 and modernization of SME management and financing structures and institutions will thus boost investment opportunities in the regions.

Overall, the PAMSFI programme performance is very satisfactory. Out of the 21 measures proposed, 14 are totally completed and 4 have been partially achieved and will be completed by December 2018, which raises the level of programme implementation to 86%.

However, due to delays in effectively implementing measures by the adoption of bills at the Assembly of People's Representatives (ARP) and the signing of enabling decrees, the outcomes obtained remain mixed especially with regard to the improvement of financial inclusion.

Concerning financial sector governance, promising outcomes are worth highlighting despite delays in the implementation of some reforms including the revision of the Insurance Code and financial market reorganization. Despite the delay in revising the financial market law, undeniable gains have been made. The financial market has thus been aligned with international standards and has an advanced technical structure and expertise in financial engineering. Besides, during the programme period, some restructuring reforms (revision of banking law, microcredit risk department, mobile payment, revision of the law on rates, etc.) contributed, among other things, to improving access to MSME financing and the capitalization of public banks.

2. Outcome reporting

Outcome indicators	Baseline value	End target (expected value at completion)	Achievements (at completion)	Progress toward target (% realized)	Narrative assessment	Core Sector Indicator (Yes/No)
Outcome 1: Financial inclusion is improved	**Outcome 1.1:** Financial inclusion ratio: 36% in 2015	38% in 2017	30%	79%	Overall, and by comparison with international standards, financial inclusion indicators in Tunisia are generally below the averages of international comparators, whether in terms of bank account penetration levels, access to accounts by financial institutions, the use of payment systems or the holding of formal credit or savings accounts. Financial inclusion is considered low at national level with a composite index of 30%. This situation is largely explained by the weak financial services availability sub-index score (0.275), although the banking and banking penetration sub-indices are rated as "medium to moderate" with respective scores of (0.319) and (0.476). Moreover, there are regional disparities with an inclusion index of 50% at the end of 2017 in the Northern region, about 40% in the Central-eastern region and 11% in the Central-west and only 9% in the South-west. With regard to microfinance, the sector experienced sustained growth over the 2015-2017 period, with a 12% increase in the number of microcredits and a 31% increase in volume. On the other hand, the share of women during the programme period stabilized at around 57%.	
	Outcome 1.2: Proportion of women microcredit beneficiaries (in relation to the total amount outstanding): 57% in 2015	65% in 2017	57%	88%		
Outcome 2: Financial sector governance is strengthened	**Outcome 2.1:** Bank credit to the private sector (% GDP): 73.6% in 2015	80% in 2017	80%	**100%**	Tunisia has in recent years initiated a series of reforms aimed at: (i) improving financial sector governance; (ii) improving the financial system's ability to mobilize savings for financing productive investments and thus better meeting economic development needs. At the same time, a vast financial liberalization programme was initiated to diversify financing sources and stimulate the financial market. This has helped to strengthen outstanding bank credit to the private sector from	

					73.6% of GDP in 2016 to 77% in 2016 and about 80% in 2017.	
	Outcome 2.2: Financial market contribution to financing the economy: 9% in 2015	10% in 2017	9.5%	95%	During the programme period, the financial market participation rate in financing private investment reached 9.5%. Overall market capitalization grew by 8% to TND 19,300 million in 2016, or 21.36% of GDP. Efforts were made to increase the Tunisian securities exchange's listing by completing a major listing operation on the main stock exchange market, which generated additional capitalization of TND 300.3 million. The number of companies listed on the stock exchange rose to 79 at the end of 2016, of which 12 joined the alternative market.	
Rating (see IPR methodology)*	Narrative assessment					
3	Tunisia has experienced strong economic and social progress in recent decades and, more recently, a successful democratic transition. But to put them back on a sustainable path, structural reforms that could support growth and competitiveness are needed. Although there is broad consensus on the need for financial sector reforms, the implementation of reforms has stumbled on socio-political constraints and ARP agenda priorities. Programme outputs are thus rather mixed in terms of improving financial inclusion. The authorities have, however, initiated a financial inclusion strategy, the launch of experienced a slight slippage and its implementation planned for 2018 to 2022. This strategy aims, among other things, to develop digital finance, microinsurance, the social and solidarity economy and financial education.					

3. Output reporting

Output Indicators - End target: (expected value at completion)	Most recent value (2016)	Progress at completion (% réalized)	Narrative assessment	Core Sector Indicator (Yes/No)
Component I - IMPROVING FINANCIAL INCLUSION				
Subcomponent 1.1 - Improving the Financial Inclusion of Vulnerable Groups				
Promote financial inclusion	Adoption by the CM of the National Financial Inclusion Strategy (SNIF)	50%	**Partly achieved**: SNIF was prepared through advisory thematic groups with 6 thrusts: (i) digital finance; (ii) microfinance; (iii) microinsurance; (iv) social and solidarity economy; (v) cross-cutting area on impact. It was finalized at the end of December 2017, but has not yet been submitted for approval to the Council of Ministers. Its adoption by the CM is expected by the end of December 2018.	
	Adoption by the Council of Ministers of the decree on the composition and operation of the financial inclusion observatory	100%	**Achieved:** In accordance with the 2016 Banking Act, the Government on 17 November 2017 issued Decree No. 2017-1259 to outline the composition and rules of organization and operation of the financial inclusion observatory as well as the list of institutions and services concerned by its intervention.	
Develop responsible microfinance	Issuance of an Order of the Minister of Finance on the fair treatment of customers of microfinance institutions	100%	**Achieved:** (i) Order of the Minister of Finance, relating to the protection of the customers of microfinance institutions issued on 24/08/2016 (ii) operationalization of the microcredit risk department has been effective since April 2016. This operationalization is carried out in several stages: the department recently integrated the credit swap dimension with banks by interfacing it with the banking information system, and the production of basic ratings is being finalized.	
	Operationalization of the microcredit risk department	100%		
Component 1.2 - Improved Access to Financing by MSMEs				
Diversify the financial services offered to vulnerable groups	Launch of the national inter-bank and inter-carrier telecom mobile payment product based on a platform managed by the SMT	100%	**Achieved:** The Central Bank of Tunisia has designated the SMT as the national inter-banking and interoperability switch. The SMT already provides inter-banking, and interoperability was effected with the	

			three telecom operators. The Post Office has not yet integrated this platform for a single national platform.	
	Approval of the pilot phase of the agricultural index insurance and the global agricultural insurance mechanism feasibility study	70%	**Achieved:** The pilot phase of the agricultural index insurance implementation has been approved in three regions with AFD support. The feasibility study of the AfDB-financed global agricultural insurance mechanism was launched after the selection of the provider, but is not yet approved at this stage.	
	Launch of a system via mobile networks for the payment of social transfers to benefit needy families		**Not achieved**: This system has not yet been launched for the 250,000 households benefiting from the National Assistance Programme to Needy Families (PNAFN). Discussions are ongoing with the Post Office. Work to establish single identifiers is in progress.	
Component 1.2 - Improved Access to Financing by MSMEs				
Improve MSME access to financing in the regions	Adoption by the CM of a bill on establishment of the Regional Bank (BDR)	50%	**Partially achieved:** Following the adoption of the model for the establishment of the Regional Bank, the Regional Bank establishment project was submitted to a restricted Council of Ministers held on 05/04/2018. The model has not yet been approved by the CM.	

	Adoption by the steering committee of the institutional model for establishment of the Regional Bank (BDR).	100%	**Achieved:** The establishment of the BDR steering committee adopted the institutional model (mission, field, financing mechanism, etc.) for the establishment of the Regional Bank. In addition, it adopted the RDB operating model that will serve as a refinancing and guarantee actor and offer financial advisory services to Very Small Enterprises (VSEs) and Small and Medium-sized Enterprises (SMEs). The committee also approved the Bank's institutional model and scope of intervention in relation to the Small and Medium-Sized Financing Bank (BFPME), the Tunisian Solidarity Bank (BTS) and the Tunisian Guarantee Company (SOTUGAR).	
Relaxing conditions for MSME access to bank loans	Adoption by the CM of a bill to amend the law on excessive interest rates for businesses	100%	**Achieved:** The Council of Ministers on 24/02/2017 adopted the bill to amend Law No. 2008-56 on excessive interest rates for businesses (to increase the margin from 20% to at least 33% between the global effective rate (TEG) and excessive credit rate	
Improve women entrepreneurs' access to credit	Operationalization of the agreement between the BTS and the Ministry of Women's Affairs for the launch of a financing product devoted to women entrepreneurs	100%	**Achieved:** The agreement between the BTS and the Ministry of Women's Affairs to launch a financing product dedicated to women entrepreneurs was signed on 10/12/2015; an amendment to ease conditions of access to these products and facilitate its operationalization was signed on 7/10/2016.	

Develop capital investment	Extension by 3 years of the provisions of Article 22 of the 2015 Finance Law allowing venture capital companies to support the financial restructuring of companies.	100%	**Achieved**: The extension of provisions of Article 22 of the 2015 Finance Law allowing venture capital companies to support the financial restructuring of economic enterprises and tourist establishments was made up to the end of 2017. It has not been extended to 2018 and 2019 given that the Council of Ministers in June 2017 adopted the bill on undertakings for collective investment in transferable securities which incorporates these aspects in the law governing the sector.	
Component II BUILDING FINANCIAL SECTOR RESILIENCE AND CAPITAL MARKET DEVELOPMENT FOR EFFECTIVE FINANCING OF THE ECONOMY				
Sub-Component II.1 - Strengthening the Financial Sector Governance Framework				
Modernize the legal and regulatory framework governing the financial sector	Adoption by the ARP of the law amending Banking Law No. 2001-65 of July 2001 on credit institutions	100%	**Achieved**: The Law to amend Banking Law No. 2001-65 of July 2001 on credit institutions was adopted by the Assembly of People's Representatives in June 2016. The enabling instruments of this law were also adopted.	
	Adoption by the ARP of a law to amend Law 58-90 on the status of the BCT.	100%	**Achieved:** The law amending Law 58-90 on the status of the BCT was passed by the Assembly of People's Representatives in June 2016.	
	Adoption by the CM of the bill to amend the law reorganizing the financial market.	0%	**Not Achieved**: The bill to amend Law 94-117 of 14 November 1994 reorganizing the financial market is still being drafted with EBRD support. However, the Financial Market Council has taken steps to promote strengthening of the legal mechanism governing the Tunisian financial market, which is the cornerstone for improving its performance. In this regard, the CMC in 2016 developed regulation on practical measures for suppressing money laundering and combating terrorism financing. Similarly, the Financial Market Council developed regulation to fight against market shortcomings, including filling the prevention and repression gaps experienced in	

			practice in order to guarantee the integrity of Tunisia's financial marketplace and strengthen investor confidence.	
	Adoption by the CM of the law on the Insurance Code	**50%**	**Partially achieved:** The Insurance Code bill was prepared and consultations made. It is scheduled to be submitted to the Council of Ministers in the third quarter of 2018. This law will strengthen governance of insurance companies at board of directors level and the organizational structures of insurance companies will be established and responsible for risk management, damage assessment and technical tests. In addition, the new code will contribute to modernizing the life insurance legal framework.	
Sub-Component II.2 - Capital Market Development				
Deepen and improve the efficiency of the public securities market	Adoption of a decree establishing a treasury agency	**0%**	**Not achieved**: Benchmark work with other countries on different debt management options has been done. A bill has been proposed. However, there is still no decision at this stage as to the direction to be given to this reform.	
	Signature of new terms of reference from primary dealers (SVTs)	**100%**	**Achieved**: The new terms of reference for primary dealers (SVTs) was forwarded to the 13 active SVTs on the marketplace. These terms of reference will foster further observance of transparency and efficiency in the management of Treasury securities. AfDB technical assistance helped finalize these specifications to comply with international best practices	
	Establishment and publication of a yield curve	**100%**	**Achieved**: A yield curve was established and launched on the market following EBRD technical assistance. This yield curve will provide a benchmark for valuing assets managed on the financial marketplace.	

Improve conditions of access to the stock market	Amendment of the Order of the Minister of Finance of 27 March 1996 fixing rates and methods of collecting royalties for stock exchange transactions	100%	**Achieved**: The Order of the Minister of Finance of 27 March 1996 fixing rates and methods of collecting royalties and commissions due to the CMF and BVMT with respect to the issue of securities, transactions and other stock market operations, was revised in May 2016. A new ceiling for commissions due to the stock market was adjusted downwards, with a deduction of 50 for SICAR transactions.	
	Launch of a stock market access kit for SMEs	100%	**Achieved**: A project to facilitate SME access to non-bank financing was launched as part of collaboration between the BVMT, the CMF and the BCT under the auspices of the Ministry of Finance. The project is supported by the United Kingdom and the African Development Bank and aims to assist 120 SMEs with high growth potential.	

Rating	Narrative assessment
4	Out of a total 21 expected programme target outputs, fifteen (15) were achieved and three (3) have been partially achieved and will be achieved with a delay of 5 to 8 months. Measures also implemented include: (i) adoption of the National Financial Inclusion Strategy (NFIS) which experienced a slippage due to the delay in finalizing the study and consultation with beneficiaries; (ii) adoption by the CM of a bill on the establishment of the Regional Bank (BDR): the Regional Bank model was finalized and the project for its establishment submitted to a restricted Council of Ministers held in early April 2018. A State-owned bank is being considered for reconversion into a regional bank; (iii) adoption by the CM of the Insurance Code bill: The Insurance Code bill was prepared and consultations made. This is a radical revision of the code that has rarely been modified since 1992. The aim is to modernize the legislative framework governing the insurance industry and adapt it to international standards. The three measures that are not achieved are: (i) Launch of a system via mobile networks for the payment of social transfers to needy families: this system has not yet been launched for the 250,000 households benefiting from the National Assistance Programme to Needy Families (PNAFN). This is related to the adoption of the Amen Programme, which is currently at ARP level. Discussions are also ongoing with the Post Office. Lastly, work to implement a single identifier is in progress and could contribute to the system's establishment; (ii) adoption by the CM of the bill amending the law to reorganize the financial market: this refers to the amendment of Law N0. 94-117 of 14 November 1994 reorganizing the financial market. Amendment of the law is ongoing with EBRD support. It may only be adopted in 2019, after the consultation phase; (iii) adoption of a decree establishing a treasury agency: Benchmarking work with other countries on debt management has been done. A draft law was proposed, but no decision has been taken by the authorities on the direction to give to this reform.

4. Development Objective (DO) rating[1]

DO rating (derived from updated IPR)*	Narrative assessment
3	Progress towards the programme's development objective is inhibited by the socio-political situation. Indeed, the country still faces major challenges in light of the weakening of the main growth drivers, including private investment, productivity and, consequently, exports. Indeed, although Tunisia has recorded economic and social progress in recent decades and, more recently, a successful democratic transition, it is important that structural reforms, including those likely to support growth and competitiveness, be put on a sustainable path. Progress in financial sector competitiveness, growth diversification and resilience is in part attributable to Bank assistance through budget support programmes initiated in 2010.

5. ***Beneficiaries*** *(add rows as needed)*

Actual (A)	**Planned** (B)	**Progress towards target** (% realized A/B)[2]	**% of women**	**Category** (eg. farmers, students)
The ultimate programme beneficiary is the Tunisian population as a whole. More specifically, PAMSFI has benefited microcredit beneficiaries, 50% of whom are women and about 26% young people. They will benefit by an improvement of their conditions. The private sector also benefited from PAMSFI. Its access to financing will be facilitated by improving the offer of financial services, including in the country's interior regions.	The Tunisian population as a whole and especially the private sector.	70%	50%	
Actions carried out in the programme have improved women entrepreneurs' access to loans through the establishment of financing products devoted to women entrepreneurs.	Women	70%	100%	
This programme has also strengthened support for young people who will be able to finance small productive projects in the agricultural and crafts sectors, mostly in rural areas.	Young entrepreneurs Young job creators	70% 70%	50%[3] 100%	

1 For operations using the old supervision report and rating system in SAP, the DO rating for the PCR shall be calculated using the IPR methodology.
2 The achievement rate should be taken as a qualitative indication of outcome compliance with forecasts (100%) or non-compliance (percentage below 100%)
3 This rate should be interpreted only as the fact that the measure affects all young entrepreneurs and therefore in principle both women and men. P.

6. **Unanticipated or additional outcomes** *(max add rows as needed)*

Description	**Type** (eg. gender, climate change, social, other)	**Positive or negative**	Impact on project (High, Medium, Low)
The financial sector operates in a very volatile and dynamic environment. A number of external and contingent factors below have implications on PAMSFI outcomes: • An unfavourable international economic situation, especially the persistent slowdown of Euro zone economic growth, on which the Tunisian economy is highly dependent; • Volatility and tightening of global financing conditions; • Inflections of the Government programme that may result in further reforms to be introduced or changes to the existing reform programme; A private sector that is not very competitive and not very formalized, especially with regard to SMEs located in the regions;	Contextual, political, institutional and global governance factors;	Contextual factors are not necessarily constraints;	Delays in the completion of some measures due to repeated changes at the helm of the Ministry of Finance and the blocking of laws at the ARP.

7. **Lessons learned related to effectiveness** *(add rows as needed)*

Key issues	**Lessons learned**	**Target audience**
Extending the programme duration for a relevant assessment of outcome and impact indicators of the matrix measures.	The programme-based approach with a timeline of three to four years should better align with the new context of the 2016-2020 development plan by ensuring more efficiency in future programmes and maintaining the choice of priority directions. Hence the idea of prioritizing the programme-based approach for future Bank support. In addition, disbursement in a single tranche without a programme-based approach limits the scope and expected outcomes.	Bank
Preparation and targeting of reforms for better ownership by the authorities and beneficiaries.	It is necessary to consolidate and deepen structural reforms taking into account the socio-political environment. This will require Bank support for the design and preparation of financial sector reforms and the sector's inclusion in programmes after the completion of consultations with relevant partners. It is therefore recommended that this assistance be concomitant with the programme's duration to comply with the reform schedule.	Government and Bank
Accelerating reforms to improve the business environment and encourage investment in the interior regions	The delay in the long-awaited economic recovery partly has its origins in internal factors -- particularly political and social. To boost economic activity and create jobs, the pace of structural reforms should be accelerated. Priority will have to be given to improving the business climate by removing the regulatory, administrative and financing constraints faced by businesses, especially MSMEs. Moreover, it will be necessary to accelerate financial sector reforms for it to fully play its role of financing the economy and allocating resources, finalize the initiated tax reform to	Government and Bank

	strengthen State resources, boost budget policy, advance the reform of public institutions to improve service quality, optimize wage and social costs, and ultimately ensure public finance sustainability.	
A harmonized donor coordination framework	To support the Government in carrying out structural reforms, it is essential to establish better coordination and harmonization of the TFPs concerned.	Bank

C Efficiency

1. Timeliness

Planned project duration – years (A) (as per PAR)	**Actual implementation time – years (B)** (from effectiveness for 1st disb.)	**Ratio of planned and actual implementation time (A/B)**	**Rating***
16 months	16 months	1	**4**
Narrative assessment			
The programme, which amounts to UA 212,700,000, was approved on 13 July 2016 and became effective on 17 August 2016. The expected programme duration is 16 months from April 2016 to December 2017. The planned disbursement in a single tranche occurred as soon as the loan became effective. The implementation of PAMSFI, therefore, complied with the planned schedule, in terms of disbursement and the implementation as well as monitoring and evaluation of reforms.			

2. Resource use efficiency

Median % physical implementation of RLF outputs financed by all financiers (A) (see II.B.3)	**Commitment rate (%) (B)** (See table 1.C – Total commitment rate of all financiers)	**Ratio of the median percentage physical implementation and commitment rate (A/B)**	**Rating***
N/A	N/A	N/A	N/A
Narrative assessment			
N/A			

3. Cost benefit analysis

Economic Rate of Return (at appraisal)	**Updated Economic Rate of Return (at completion)**	**Rating***
N/A	N/A	N/A
Narrative assessment		
N/A		

4. Implementation Progress (IP)[4]

IP Rating (derived from updated IPR) *	Narrative comments (commenting specifically on those IP items that were rated Unsatisfactory or Highly Unsatisfactory, as per last IPR).
4	This very satisfactory programme implementation rating is justified by the borrower's good performance in observing programme clauses, in programme monitoring and evaluation, and in the timely achievement of loan disbursement conditions. The programme was developed in a concerted manner by the Bank and Government through the development of a matrix focusing on measures deemed relevant, feasible and prioritized, which in fact were fully achieved except for some relatively minor ones. Overall, the Tunisian authorities, through the Directorate of Treasury and External Financing, have ensured the harmonization of various donor interventions and their alignment with the country's financial sector reform priorities. The disbursement made in the 2016 budget was made within the deadline.

5. Lessons learned related efficiency

Key issues	Lessons learned	Target audience
Involvement of stakeholders from programme design	In its design and preparation phase, PAMSFI was the subject of consultation with stakeholders under the coordination of the Tunisian authorities. Discussions with key beneficiaries through social and professional organizations about their concerns led to a better understanding of areas on which the programme should focus.	Government, Private Sector, Civil Society and Bank
Design and implementation oriented towards high impact measures	Through its design and implementation, PAMSFI builds on Bank achievements in previous financial sector interventions and has included in its matrix of key actions to strengthen the inclusiveness of the banking, microfinance and capital markets sectors.	Government and Bank

D Sustainability

1. Financial sustainability

Rating*	Narrative assessment
4	PAMSFI has helped to improve access to financing for the population and small and medium-sized enterprises, strengthen the insurance sector's governance structure, and improve financial sector stability and inclusion. To ensure the financial sustainability of reforms, steps have been taken to: (i) involve stakeholders in each reform; (ii) adopt, as soon as possible, various draft instruments by the Council of Government and forward them to Parliament for introduction into Tunisian legislation; (ii) control the budget deficit and take into account the financial implications of these reforms in the state budget . Tunisia's financial sector has modernized over the past ten years, but major challenges remain in financing SMEs/VSEs, especially those of young people. The programme's implementation was facilitated by mobilizing resources needed to finalize the 2016 budget despite difficult economic conditions. These resources come from State revenue and loans from major donors (AfDB, WB, EU and IMF). Public finances deteriorated, resulting in a widening fiscal deficit (excluding privatisation, grants and revenue from confiscated goods) from 4.8% of GDP in 2015 to 6.1% of GDP in 2016, driven by increased budget spending, with the exception of offsetting expenses, and weak tax revenue resulting from weak economic conditions. Financing the budget deficit was mainly carried out through the use of domestic financing to offset the decline in external resources. The programme's financial sustainability, therefore, remains dependent on outcomes and progress achieved in the implementation of reforms to consolidate macroeconomic balances in the medium term and to revive growth on the basis of a new development model focused more on resource development and a skilled workforce.

[4] For operations using the old supervision report and rating system in SAP, the IP ratings need to be converted from the 0-3 scale used in SAP to the 1-4 scale used in the IPR.

2. Institutional sustainability and capacity building

Rating*	Narrative assessment
4	Programme-supported reforms have led to institutional changes in financial sector governance and helped to initiate, among other things, the insurance system and financial market overhaul. This programme benefited from significant leverage effects through its conjunction with technical assistance to: (i) improve SME financing through support to the SME Finance Bank (BFPME); (ii) support the improved performance of debt market primary dealers; (iii) conduct a study of the BTS/AMC financing mechanism that benefited the Tunisian Solidarity Bank; and (iv) undertake the project to facilitate SME access to non-bank financing. Other actions carried out by the Government with support from other donors included capital market modernization, the reform and diversification of financial products, the promotion of financial inclusion. The strong Government commitment to implement structural reforms in the financial sector should also be noted.

3. Ownership and sustainability of partnerships

Rating*	Narrative assessment
4	Ownership of reforms by actors and partners is essential to ensure the sustainability of objectives pursued. As part of PAMSFI, a participatory approach that brought together the Government and civil society was adopted to discuss and finalise programme measures. The PAMSFI design also benefited from strong coordination with other donors active in the sector in Tunisia. It includes several common reform measures with the new IMF programme and complements the World Bank's Financial Sector Programme, which is being approved. The Bank also worked closely with the European Bank for Reconstruction and Development (EBRD). Regular consultation and exchange meetings on identified problems and required measures were carried out between the different institutions throughout the programme's preparation, design and implementation phases.

4. Environmental and social sustainability

Rating*	Narrative assessment
4	This is an exclusively financial sector budget support programme. It is classified in environmental category III. However, the operation significantly contributed to the fight against poverty. Measures adopted to facilitate access to financing by small farmers, through agricultural insurance, have had a significant impact in improving living conditions, particularly for women.

5. Lessons learned related to sustainability

Key issues	Lessons learned	Target audience
Stakeholder involvement.	The involvement of all stakeholders and ownership by beneficiaries make the sustainability of chosen reforms possible, including those related to the enhancement of financial inclusion.	Government and all stakeholders
The programme's financial sustainability needs to be strengthened to improve impact sustainability.	Fiscal and external balance deterioration is a risk for the continuation of socio-economic programmes and reforms. Stabilising the macroeconomic framework by controlling public spending and public debt is necessary for the programme's medium-term financial sustainability and the sustainability of programme benefits.	Government and Bank
Capacity building	Institutional changes took place in financial sector governance to grant greater autonomy to services responsible for financial sector supervision. Activities to build the capacities of these institutions were conducted through technical assistance to support reform implementation.	Government and Bank
Sustainability and programme-based approach	Use of the programme-based approach to consolidate financial sector reforms that take time to implement and provide decision-makers with good visibility about financial resources related to Bank and TFP support.	Government and Bank

III Performance of stakeholders

A Relevance

1. Bank performance

Rating*	Narrative assessment by the Borrower on the Bank's performance, as well as any other aspects of the project (both quantitative and qualitative).
4	The programme design benefited from the outcomes of recent analytical work and took into account key lessons from previous Bank budget support. The Bank's role in the programme's design and harmonisation with other donors (WB, EU, EBRD, IMF) is well perceived despite different intervention schedules. The AfDB loan conditionalities are harmonized with those of other donors in such a manner that their implementation allowed for disbursement of the loan within the deadline (December 2016). The programme implementation monitoring and evaluation plan was based mainly on the matrix of measures designed jointly with the authorities and in consultation with other TFPs. The Bank also aligned its support with the 2016 and 2017 budget cycles. Moreover, its impact has consolidated gains obtained in previous reform support programmes. The Bank's experience in supporting financial sector reforms gave it a clear comparative advantage in this area in Tunisia and enabled it to establish a strong partnership relationship with Tunisian authorities.

Comments to be inserted by the Bank on its own performance (both quantitative and qualitative).	
Overall performance was satisfactory and the Bank met the Client's expectations.	
Lessons learned (related to Bank performance)	**Lessons learned**
Potential synergies between budget support and other Bank intervention instruments.	PAMSFI and Bank operations to improve economic governance and the business environment, youth employability, competitiveness and energy complement each other. The holistic and complementary approach however has to be strengthened. Moreover, reform design and implementation require support in the form of studies and technical assistance, which the Bank will have to scale up.
The Bank's role in the reform process	The Bank has conducted several regional-level financial sector support operations in the past, which has enabled it to learn lessons that have been taken into account in the programme's design and implementation. This operation helped to accelerate the reform implementation pace.

2. Borrower performance

Rating*	Narrative assessment on the Borrower performance (both quantitative and qualitative, depending on available information).
4	The loan agreement was signed on time and the loan implementation also met deadlines. Indeed, supporting documents attesting to the fulfilment of conditions precedent to the presentation of PAMSFI to the Bank's Board of Directors and fulfilment of the conditions precedent to the single disbursement were forwarded by the Ministry of Finance (MF) and the Ministry of Investment, Development and International Trade (MIDCI). Programme coordination is carried out by the MF, which has the necessary capacities. The borrower's political commitment and ownership of the programme were very satisfactory. Based on the monitoring framework, the borrower was able to take the necessary measures in a timely manner to satisfactorily implement the programme. Almost all programme measures were completed within the programme period (2016-2017) and the closing date of 31 December 2017.

Lessons learned (related to Borrower performance)	**Lessons learned**
Ownership and inclusion of stakeholders	The Ministry of Finance steered the programme and established an effective monitoring and evaluation system involving all stakeholders. The main institutions involved with the programme (AMC, CMF, CGA, BCT, BVMT, etc.) exercised good ownership of reforms they were associated with at design phase.
Programme monitoring and supervision	The quality of PAMSFI monitoring by the RDGN and supervision missions provided the necessary reform implementation support to stakeholders.

3. Performance of other stakeholders

Rating*	Narrative assessment on the performance of other stakeholders, including co-financiers, contractors and service providers.
4	The programme benefited from close collaboration among all partners (AfDB, WB, EBRD) in the design, monitoring and implementation phases. This allowed for the harmonization of measures supported by each donor and conditionalities for the disbursement of financing. The Bank also carried out consultations with banking operators, the stock market as well as professional insurance associations, venture capitalists, and microfinance. This approach made it possible to sample opinions from various stakeholders on the constraints of developing the Tunisian financial sector and assess the relevance of measures agreed with the authorities in the context of this operation.

Key Issues (related to other stakeholder performance)	**Lessons learned** (max 5)	**Target audience** (for lessons learned)
More active participation of professional associations in reform ownership and assessment is key to the programme's success.	Involving NGOs and financial sector operators could improve the degree of beneficiary ownership by their involvement in the reform development and dissemination.	-

I Summary of key lessons learned and recommendations

1. Key lessons learned

Key issues	Key lessons learned	Target audience
Programme design should sufficiently take into account the socio-political risk.	Programme design should better take into account the increased political instability (no less than six governments since 2011) that is slowing down the pace of structural reforms, undermining investor confidence and increasing fiscal balance and balance of payment risks. The delay in establishing a social dialogue framework has hampered the progress of certain key reforms with a significant impact on recovery and macroeconomic and social stability.	Government and Bank
Reform design and implementation require support by appropriate technical assistance.	The choice of financial sector structuring mechanisms requires reform preparation through studies and technical assistance with budgetary implications. The Bank will have to help enhance its added value and presence in the reform programme through more targeted technical assistance.	Government and Bank
Extension of the programme duration for the relevant assessment of outcome and impact indicators.	The programme-based approach with a timeline of three to four years should better align with the new context of the 2016-2020 development plan by ensuring more efficiency in future programmes and maintaining the choice of priority directions. Hence the idea of prioritizing the programme-based approach for future Bank support.	
Policy Dialogue and Ownership	Policy dialogue has been an important element in achieving the programme's development objectives. It should be noted that the dialogue approach used by the Government through the consultation process with stakeholders and the public (publication of draft text on the Government website) is a good participatory approach. This consultation process is usually a source of delays or failure to implement certain measures. This aspect should be taken into account in the development of future programmes. Perfect mastery of reform design and implementation involving multiple stakeholders by the authorities is key to the programme's success. The authorities will have to consult widely with all the structures concerned by the reforms, including banks, microfinance associations, brokerage firms, sector regulators, insurance companies, professional business associations, management companies, the BCT, etc. Moreover, the people's representatives will have to be sensitised on compliance with the schedule for the adoption of laws.	Government, Bank TFPs

2. Key recommendations (with particular emphasis on ensuring sustainability of project benefits)

Key issues	Key recommendation	Responsible	Deadline
Reform design and implementation require support by appropriate technical assistance.	The choice of financial sector structuring mechanisms requires reform preparation through studies and technical assistance with budgetary implications. Systematise reform programme support through capacity building and technical assistance projects to better design and implement identified measures.	Government and Bank	Preparation/implementation of new support program
Ownership of reforms by actors and beneficiaries guarantees the success and sustainability of the programme's achievements	Develop the participatory approach by systematically involving economic and social partners in reform preparation and implementation, and ensure the dissemination of reforms to stakeholders and beneficiaries. It will also be necessary to establish a reforms monitoring and evaluation system to measure short- and medium-term impact.	Government Bank Beneficiaries	Preparation/implementation of new support programme
Targeting, and number of reform measures	Given the complexity and high sophistication level of financial sector reforms, it is important to target a reduced number of measures and choose those with the highest impact and appropriate support.	Government Bank	Preparation/implementation of new support programme

V Overall PCR rating

Dimensions and criteria	Rating*
DIMENSION A: RELEVANCE	***4***
Relevance of project development objective (II.A.1)	4
Relevance of project design (II.A.2)	4
DIMENSION B: EFFECTIVENESS	***3.7***
Outcomes (II.B.2)	3
Outputs II.B.3:	4
Development Objective (DO) (II.B.4)	4
DIMENSION C: EFFICIENCY	***4***
Timeliness (II.C.1)	4
Resource use efficiency (II.C.2)	N/A
Cost benefit analysis (II.C.3)	N/A
Implementation Progress (IP) (II.C.4)	3
DIMENSION D: SUSTAINABILITY	***4***
Financial sustainability (II.D.1)	4
Institutional sustainability and capacity building (II.D.2)	4
Ownership and sustainability of partnerships (II.D.3)	4
Environmental and social sustainability (II.D.4)	4
OVERALL PROJECT COMPLETION RATING	**3.7**