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Report No: PAD3160

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF EUR 66.90 MILLION
(US$75 MILLION EQUIVALENT)

TO THE

REPUBLIC OF TUNISIA

FOR AN

INNOVATIVE STARTUPS AND SMALL AND MEDIUM ENTERPRISES PROJECT

May 23, 2019

Finance, Competitiveness, and Innovation Global Practice
Middle East and North Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective May 10, 2019)

Currency Unit =	Tunisian Dinars
US$ 1 =	TND 3.00
EUR 1 =	US$ 1.12
US$ 1 =	EUR 0.89

GOVERNMENT FISCAL YEAR

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

AFD	*Agence Française de Développement* (French Development Agency)
AfDB	African Development Bank
ANETI	*Agence Nationale pour l'Emploi et le Travail Indépendant* (Agency for Employment and Independent Work)
APII	*Agence de Promotion de l'Industrie et de l'Innovation* (Agency of Industry and Innovation Promotion)
BDS	Business Development Service
BOD	Board of Directors
CBT	Central Bank of Tunisia
CDC	*Caisse des Dépôts et Consignations* (Deposits and Consignments Fund)
CEO	Chief Executive Officer
CPF	Country Partnerships Framework
CR	Control Risk
CQS	Selection Based on the Consultants' Qualifications
DA	Designated Account
DB	Doing Business
DFI	Development Finance Institution
DT4D	Disruptive Technologies for Development
E&S	Environmental and Social
ESCP	Environmental and Social Commitment Plan
ESF	Environmental and Social Framework
ESMS	Environmental and Social Management System
ESRC	Environmental and Social Risk Classification
ESRM	Environmental and Social Risk Management
ESS	Environmental and Social Standard
EU	European Union

FCPR	*Fonds Communs de Placement à Risque* (Venture Capital Mutual Investment Funds)
FI	Financial Intermediary
FM	Financial Management
FMS	Financial Management Specialist
GDP	Gross Domestic Product
GIZ	*Deutsche Gesellschaft für Internationale Zusammenarbeit* (German Agency for International Cooperation)
GoT	Government of Tunisia
HGF	High-Growth Firm
IC	Investment Committee
ICR	Implementation Completion and Results Report
ICT	Information and Communication Technology
IFC	International Finance Corporation
IFR	Interim Financial Report
IMF	International Monetary Fund
IR	Inherent Risk
KfW	German Development Bank
KPI	Key Performance Indicators
LA	Loan Agreement
LMP	Labor Management Procedures
LPs	Limited Partners
M&E	Monitoring and Evaluation
MNA	Middle East and North Africa
MFD	Maximizing Finance for Development
MoF	Ministry of Finance
MSMEs	Micro, Small, and Medium Enterprises
MTCEN	Ministry of Communication Technologies
NEET	Not in Education, Employment or Training
PCU	Project Coordination Unit
PDO	Project Development Objective
PE	Private Equity
PFI	Participating Financial Intermediary
POM	Project Operational Manual
PPSD	Project Procurement Strategy for Development
QCBS	Quality- and Cost-Based Selection
REoI	Request for Expressions of Interest
RFI	Responsible Financial Intermediary
SEP	Stakeholder Engagement Plan
SICAR	*Société d'investissement en capital à risque* (Risk Capital Investment Company)
SMEs	Small and Medium Enterprises
STEM	Science, Technology, Engineering, and Mathematics
STEP	Systematic Tracking of Exchanges in Procurement
VC	Venture Capital

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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Tunisia	Tunisia Innovative Startups and SMEs Project	
Project ID	**Financing Instrument**	**Environmental and Social Risk Classification**
P167380	Investment Project Financing	Moderate

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[ ] Fragile State(s)
[ ] Disbursement-linked Indicators (DLIs)	[ ] Small State(s)
[✓] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
14-Jun-2019	31-Dec-2026
Bank/IFC Collaboration	**Joint Level**
Yes	Joint Project - involving co financing with IFC (loan, equity, budget, other) or staffing

Proposed Development Objective(s)

The Project Development Objective is to increase access to finance and support the growth of innovative startups and small and medium enterprises

Components

Component Name	Cost (US$, millions)

Equity and Quasi-Equity Financing for Innovative Startups and SMEs	62,000,000.00
Ecosystem and Firm-Level Support for Innovative Startups and SMEs	8,000,000.00
Project Management and Capacity Building	5,000,000.00

Organizations

Borrower:	Republic of Tunisia
Implementing Agency:	Caisse de Depots et de Consignations

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	75.00
Total Financing	75.00
of which IBRD/IDA	75.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	75.00

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2019	2020	2021	2022	2023	2024	2025	2026	2027
Annual	0.00	2.05	3.90	4.90	7.50	11.69	16.08	17.77	11.10
Cumulative	0.00	2.05	5.96	10.85	18.35	30.04	46.12	63.90	75.00

INSTITUTIONAL DATA

Practice Area (Lead)	Contributing Practice Areas
Finance, Competitiveness and Innovation	

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?	
a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF	Yes
b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment	Yes
c. Include Indicators in results framework to monitor outcomes from actions identified in (b)	Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	High
3. Sector Strategies and Policies	Substantial
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	Substantial
9. Other	
10. Overall	Substantial

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [√] No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Not Currently Relevant
Community Health and Safety	Not Currently Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Not Currently Relevant
Financial Intermediaries	Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description
Schedule 2, Section I.A.3: The Borrower shall, no later than three (3) months after the Effective Date, or any such later date as agreed by the Bank, establish, and thereafter maintain throughout Project implementation, a committee ("Steering Committee") with composition acceptable to the Bank and defined in the POM, to provide strategic guidance and oversight of the Project, facilitate overall effective implementation of the Project and ensure its consistency with the Borrower's entrepreneurship support programs.

Conditions

Type	Description
Effectiveness	Article V, 5.01 (a) of the Loan Agreement: The Subsidiary Agreement has been executed on behalf of the Borrower and the CDC and is in full force and effect.

Type	Description
Effectiveness	Article V, 5.01 (b) of the Loan Agreement: Smart Capital has been legally established, (including the appointment of its Board of Directors and its general director]), all in a manner acceptable to the Bank.

Type	Description
Disbursement	Schedule 2, Section III.B.1.(a) of the Loan Agreement: For payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed EUR 500,000 may be made for payments made prior to this date but on or after the date falling twelve months prior to the Signature Date, for Eligible Expenditures under Category (5).

Type	Description
Disbursement	Schedule 2, Section III.B.1.(b) of the Loan Agreement: Under Category (1) until and when: (i) the Fund of Funds has been established, including the approval of its Articles of Association, all in a manner acceptable to the Bank and as further described in the POM; (ii) the Fund of Funds' Investment Committee has been established with composition and functions acceptable to the Bank and further described in the POM; and (iii) the Partnership Agreement has been executed on behalf of the CDC and Smart Capital and is in full force and effect.

Type	Description
Disbursement	Schedule 2, Section III.B.1.(c) of the Loan Agreement: Under Category (2) until and when the Grant Selection Committee for Grants under Part 2.1 has been established with composition and functions acceptable to the Bank and further described in the POM.

Type	Description
Disbursement	Schedule 2, Section III.B.1.(d) of the Loan Agreement: Under Category (3) until and when: (i) the Co-investment Fund has been established, including the approval of its Articles of Association in a manner acceptable to the Bank and as further described in the POM; (ii) the Co-Investment Fund's Investment Committee has been established with composition and functions acceptable to the Bank and further described in the POM; and (iii) the Partnership Agreement has been executed on behalf of the CDC and Smart Capital and is in full force and effect; or

Type	Description
Disbursement	Schedule 2, Section III.B.1.(e) of the Loan Agreement: Under Category (4) until and when the Grant Selection Committee for Grants under Part 2.2 has been established with composition and functions acceptable to the Bank and further described in the POM.

I. STRATEGIC CONTEXT

A. Country Context

1. **A sustained transition to democracy and an ambitious reform agenda have marked Tunisia's path since the 2011 revolution.** Tunisia is a lower-middle-income country, with a population of 11.6 million and a gross domestic product (GDP) of US$40.3 billion (2018). Often hailed as the success story of the Arab Spring, the country has made great strides toward establishing the fundamentals of democracy, including the formation of the National Dialogue Quartet in 2013[1] and the introduction of a new constitution in 2014. The Government of Tunisia (GoT) has also embarked on an ambitious reform agenda, aimed at boosting civil society and democratic freedom as well as stimulating private sector-driven growth and job creation. In 2016, the GoT adopted the Five-Year Development Plan 2016–2020, followed by the Economic and Social Roadmap 2018–2020, aimed at accelerating the implementation of reforms focused on macroeconomic and fiscal stabilization; the modernization of social safety nets; and the enhancement of private investment, competitiveness, and productivity. In May 2018, the first free and fair municipal elections were held, further anchoring the democratic culture and laying the groundwork for decentralization.

2. **The economic situation remains fragile, despite recent modest increase in growth and efforts to contain the fiscal deficit.** The instability in the aftermath of the revolution, due to political unrest and terrorist attacks, weakened the investment climate and severely affected economic sectors, such as tourism, that were traditionally engines of growth and sources of foreign exchange. To counter social tensions, the GoT embraced expansionary fiscal policies, including public sector hiring and wage increases, which have impaired public finances. The fiscal deficit and public debt, respectively, reached 4.6 percent and 74.0 percent of GDP in 2018.[2] In addition, the current account deficit widened to 11.0 percent in 2018, and in May 2019, gross international reserves stood at 75 days import cover.[3] Despite these macroeconomic vulnerabilities, GDP growth reached 2.5 percent in 2018. This was largely due to stronger performance of the agriculture, services, and export-oriented manufacturing sectors. However, progress in terms of poverty reduction and shared prosperity has been slow. In particular, the poverty headcount ratio stood at 15 percent in 2015, and disparities among regions and age groups have persisted or widened.

3. **In this context, unemployment has remained high, especially for young educated graduates, women, and populations in the interior regions.** Long-standing structural distortions, combined with recent macroeconomic vulnerabilities, have resulted in a private sector that has generated few high-quality jobs. According to the Institute of National Statistics (INS), as of 2018, 33.9 percent of the workforce is employed in industry, 51.7 percent in services, and 13.9 percent in agriculture.[4] In addition,

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[1] The National Dialogue Quartet comprises four key organizations in Tunisian civil society: the Tunisian General Labor Union (*Union Générale Tunisienne du Travail*), the Tunisian Confederation of Industry, Trade and Handicrafts (*Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat*), the Tunisian Human Rights League (*La Ligue Tunisienne pour la Défense des Droits de l'Homme*), and the Tunisian Order of Lawyers (*Ordre National des Avocats de Tunisie*). It received the Nobel Peace Prize in 2015 for its decisive contribution to the building of a pluralistic democracy in Tunisia in the wake of the revolution of 2011.
[2] IMF (2018).
[3] IMF (2018).
[4] INS (2018). *Employment Statistics.* Available: *http://www.ins.nat.tn/fr/themes/emploi#horizontalTab1*

the World Bank (2018) estimates that close to 21 percent of the workforce is vulnerably employed—that is, self-employed without employees or working as unpaid family workers.[5] Total unemployment stands at 15.4 percent (2017) and has been much higher among young graduates (30.2 percent), women (23.1 percent), and populations in the interior regions (over 25 percent in the South-West and South-East, compared to 10 percent in the Center-East and North-East).[6] Significant disparities in labor participation between women and men also exist: in 2017, 25 percent of women were active in the labor force compared to 71 percent of men; and 31 percent of young women were not in education, employment, or training (NEET), compared to 19 percent of young men.[7]

4. **To address these challenges, the Government has launched an ambitious agenda to boost entrepreneurship, innovation, and inclusive economic growth.** Most notably, the GoT approved the Startup Act in April 2018, which aims to provide tax and other incentives to support the creation and growth of innovative startups and small and medium enterprises (SMEs), and to turn Tunisia into a vibrant entrepreneurship hub. In addition, a new "transversal law" (*loi transversale)*, which aims to ease restrictions to private investment and remove business environment constraints including those related to private equity (PE), has been adopted by the Parliament. An ambitious Digital Economy Program is also under development, and includes numerous digital government projects, the upgrading of information and communication technology (ICT) and payment infrastructure, and the opening of the market to digital financial service providers and financial technology (FinTech) companies. Together, these initiatives are expected to boost private investment, productivity, and job creation, while contributing to ensuring economic growth benefits for all Tunisians. The success of this policy agenda will, however, depend on building strong private sector partnerships; developing clear coordination mechanisms between various government agencies, development partners, civil society, and other stakeholders; and ensuring broad outreach of activities to lagging and underserved regions.

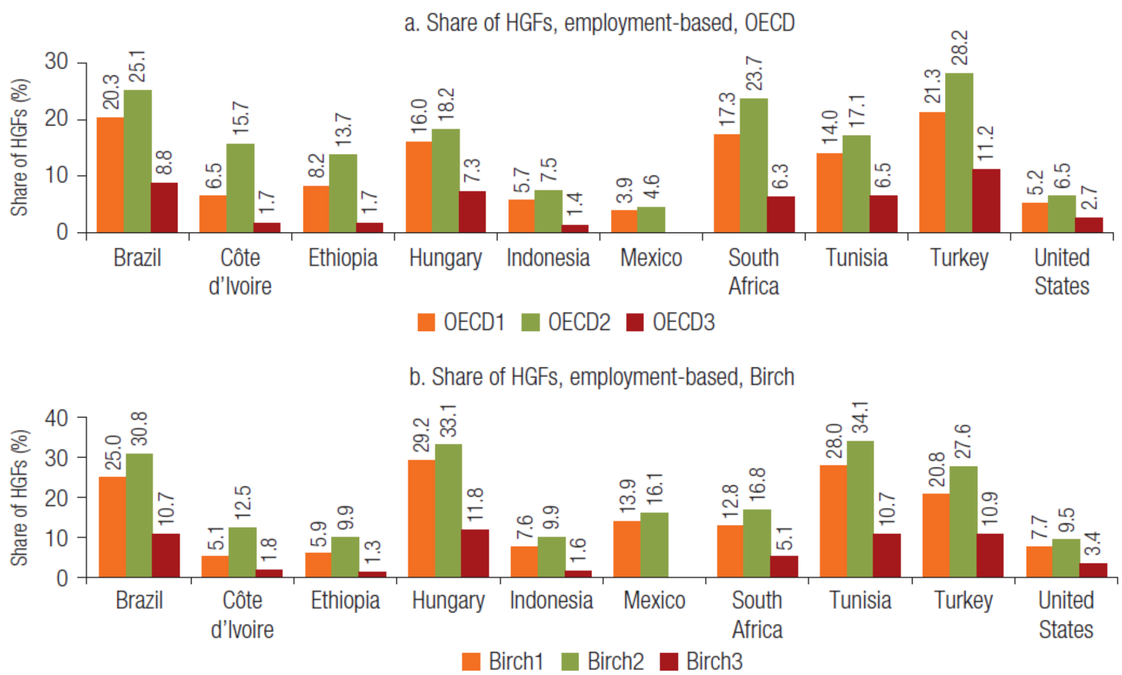
B. Sectoral and Institutional Context

5. **Startups and SMEs in Tunisia have become an important source of employment and growth.** Recent research on high-growth firms (HGF) in Tunisia finds that, between 1996 and 2015, small and young firms have been more likely to exhibit HGF status—that is, achieve outstanding growth in employment or revenue over a three-year period[8]–compared to large, older firms.[9] Furthermore, the share of Tunisian firms that has achieved greater than 20 percent growth in employment has been found

[5] World Bank. 2018. *World Development Indicators Databank.* Available: *https://databank.worldbank.org/data/source/world-development-indicators*.
[6] World Bank. 2018. *World Development Indicators Databank.* Available: *https://databank.worldbank.org/data/source/world-development-indicators*.
[7] World Bank. 2018. *World Development Indicators Databank*; World Bank. 2014. *Tunisia: Breaking the Barriers to Youth Inclusion.* Washington, DC: World Bank.
[8] Organisation for Economic Co-operation and Development (OECD). 2007. *Eurostat-OECD Manual on Business Demography Statistic*s. Paris: OECD; Birch, D. 1981. "Who Creates Jobs?" *Public Interest* 65 (Fall): 3–14. The OECD defines HGFs as firms that employ more than 10 workers (including owners but excluding unpaid workers) and whose employment grows at an average annual rate of 20 percent or more over three consecutive years. According to the Birch (1981) definition, HGFs are firms that employ more than 10 workers (including owners but excluding unpaid workers) and whose employment growth places them in the 90th percentile of the Birch index of all firms in the economy, with the index defined over three consecutive years.
[9] World Bank. 2019. *High-Growth Firms: Facts, Fiction, and Policy Options for Emerging Economies.* Available: *https://www.worldbank.org/en/news/feature/2018/11/16/high-growth-firms-facts-fiction-and-policy-options-for-emerging-economies*.

to be on par with peer countries (see Figure 1). This suggests that SMEs in Tunisia can be an important source of employment and productivity growth. However, several factors continue to limit the ability of Tunisian startups and SMEs to grow, including limited access to lucrative export markets; a restrictive business and regulatory environment; lack of access to finance; and limited support for business development, technology adoption, and innovation. These constraints are further compounded for women entrepreneurs, largely due to challenging social norms and cultural barriers, as well as additional obstacles faced in navigating the business environment and accessing suitable financial and nonfinancial service.

Figure 1. Share of HGFs in Selected Peer Countries



Source: World Bank (2019)

Note: OECD1 and Birch1 incidence are calculated as the number of HGFs in time t (based on either definition) divided by the total number of firms with nonzero employment in time t. OECD2 and Birch2 are calculated as the number of HGFs in time t (based on either definition) divided by the total number of firms with nonzero employment in time t and t−3 (only firms that are three years or older are included in the numerator and denominator). OECD3 or Birch 3 are calculated as OECD1 or Birch1, with the additional requirement that a firm can be classified as HGF only if it registers positive employment or sales growth in t, t−1, and t−2.

6. **Tunisia is close to key export markets in Europe and Africa, but exports remain concentrated in a few European markets.** Europe has remained Tunisia's main export market, accounting for 78.5 percent of Tunisia's exports in 2017.[10] Although exports to Europe have contributed to productivity gains in some sectors, particularly machinery and equipment,[11] Tunisia's exports have generally been low value-added

[10] European Commission (2018). *Tunisia.* Available: *http://ec.europa.eu/trade/policy/countries-and-regions/countries/tunisia.*

[11] Ayadi and Mattoussi. 2016. "From Productivity to Exporting or Vice Versa? Evidence from the Tunisian Manufacturing Sector". Brookings Africa Growth Initiative. Working Paper No 23.

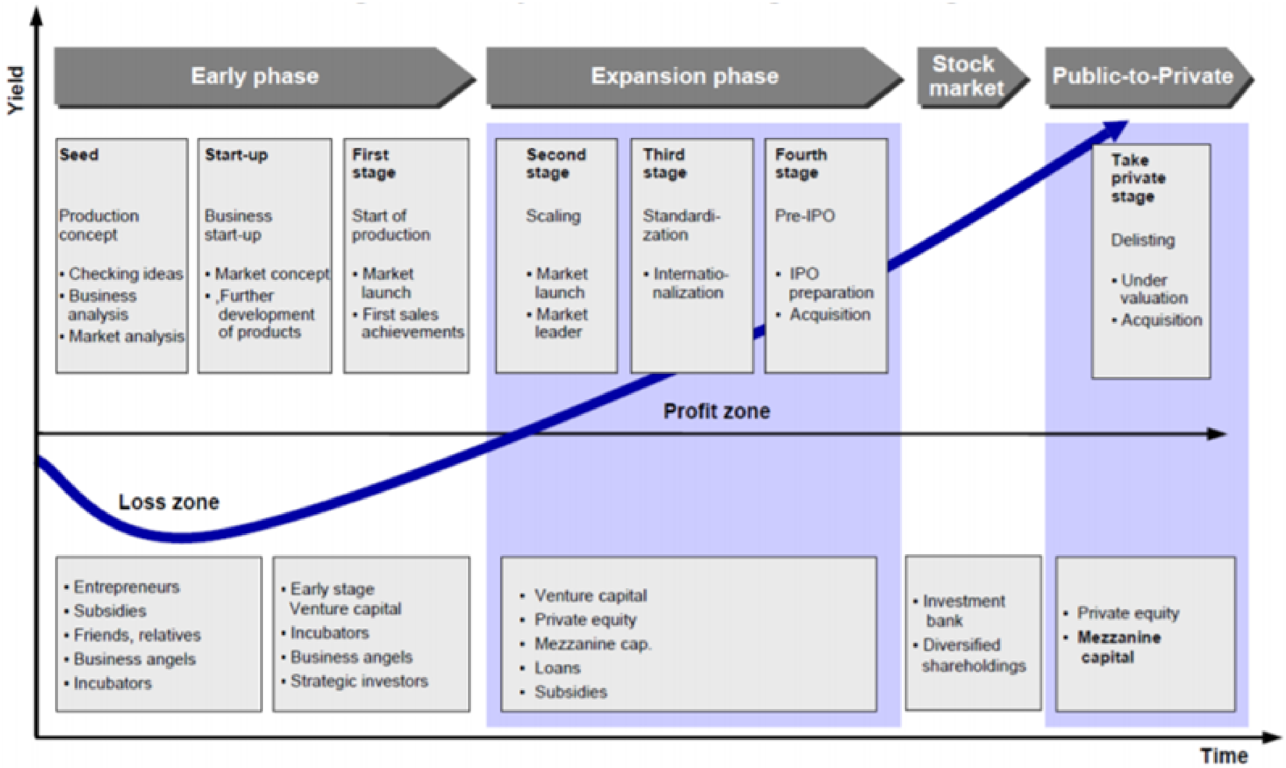
products and services, including textiles and clothing, agricultural goods, and tourism. There is therefore scope for innovative startups and SMEs to enter high-value, high-productivity export sectors, such as agribusiness; manufacturing (electromechanical, leather and footwear, petrochemicals, and pharmaceuticals); and services (ICT, niche tourism, and health); as well as to tap new regional and global markets. However, several constraints continue to impede the growth of high value-added exports to new markets, including inefficient and costly logistics and export procedures, weak positioning of Tunisian firms in global supply chains, and limited ability of some firms to meet higher product or service standards in international markets.[12]

7. **Despite recent reform efforts, the business environment continues to be a critical bottleneck to private sector investment and competitiveness.** For the first time since 2012, Tunisia has improved its Doing Business (DB) ranking from 88 to 80, driven mainly by progress in 'starting a business' (+37), 'protecting minority investors' (+35), and 'getting credit' (+6). However, the ranking deteriorated most notably for 'trading across borders' (−5) and 'resolving insolvency' (−4).[13] Additional challenges in the business environment include burdensome regulatory and authorization requirements; lack of infrastructure and security in the interior regions; a workforce lacking job-readiness skills, despite being relatively well educated; and a high tax burden on firms, among others.[14] The high costs of doing business, combined with rigid labor laws and limited contestability of protected sectors, has contributed to an underperforming domestic private sector.[15]

8. **Access to finance remains a key constraint for startups and SMEs.** Banks dominate the financial system while private equity and venture capital (PE/VC) remain underdeveloped, despite the presence of 57 risk capital investment companies (*Société d'investissement en capital à risqué,* SICARs) and 37 VC mutual investment funds (*Fonds communs de placement à risque,* FCPR).[16] SICARs and FCPRs are generally risk averse and channel most funding to late-stage startups or established SMEs. Although a number of VC funds (such as UGFS CapitalEase Fund, Flat6Labs Seed Fund) have recently been established to provide financing to startups in the early stages of business development, there remains a critical gap in finance for startups in the 'loss zone' (see Figure 2). Similarly, SMEs continue to face high collateral requirements and borrowing costs, while those operating in technology sectors lack the fixed collateral required to access traditional financing from banks.

[12] These issues are being addressed in the ongoing World Bank-funded Third Export Development Project (EDP III).
[13] The World Bank Group is currently supporting the Government in implementing reforms based on the DB indicators particularly targeting four DB indicators in the overall DB reform roadmap.
[14] Investment Climate Assessment, Tunisia, February 2014.
[15] OECD. 2018. *OECD Economic Surveys: Tunisia March 2018*. Available: *https://www.oecd.org/eco/surveys/Tunisia-2018-OECD-economic-survey-overview.pdf.*
[16] Central Bank of Tunisia (CBT) Financial Statistics, October 2017, no: 200. Available:*https://www.bct.gov.tn/bct/siteprod/documents/BSF_ang.pdf*.

Figure 2. Lifecycle of a Firm and Stages of Financing



Source: OECD 2013.

9. **The entrepreneurship ecosystem is nascent and suffers from poor coordination among public and private stakeholders.** The Tunisian entrepreneurship ecosystem is dominated by public sector entities, including the *Agence de Promotion de l'Industrie et de l'Innovation* (APII, Agency of Industry and Innovation Promotion), the *Agence Nationale pour l'Emploi et le Travail Indépendant* (ANETI, Agency for Employment and Independent Work), and others. APII manages 30 business incubators ('*pépinières*') and 9 technology parks ('technoparks') which provide business development support to firms across all stages of business creation. Private sector players in the ecosystem include 1 business angel network (Carthage Business Angels) and 13 incubators and accelerators, and 16 PE/VC funds and other investors[17] (see Figure 3). Despite key elements being in place, the ecosystem has been ineffective in providing sufficient, high-quality support to innovative startups and SMEs. This is largely due to the outsized role of the Government in the management of public programs, the limited number and reach of private programs outside coastal regions, and poor coordination among public and private sector initiatives. As a result, a large proportion of startups and SMEs struggle to obtain the right business and technical expertise; build links with potential clients; and gain access to new technologies, markets, and value chains.

[17] Entrepreneurs of Tunisia (EOT). 2018. *Tunisian Startup Ecosystem.* Available: *https://www.eot.tn/report/13*.

Figure 3. Tunisian Entrepreneurship Ecosystem, 2018

Source: Entrepreneurs of Tunisia (EOT) 2018

10. **Similarly, the research and innovation ecosystem—a potential pipeline for innovative startups and SMEs—is fragmented and poorly linked to the entrepreneurship ecosystem.** This is due to fragmented public policy formulation and governance; limited private sector funding directed at research and development; unclear intellectual property policies on ownership of research; limited managerial capacities among startups and SMEs to undertake research and development; few incentives to encourage academics and researchers to get involved in research commercialisation; and weak links between the research, innovation, and entrepreneurship ecosystems. In this context, the ability of existing and disruptive technologies (such as Internet of Things, blockchain, and data analytics) to drive process innovation, new business models, and increased productivity, remains limited. A few initiatives have been introduced to encourage innovation and technology adoption within Tunisian startups and SMEs, including the European Union (EU) program Horizon 2020 aimed at boosting research commercialization, and the German Agency for International Cooperation’s (GIZ) Make IT Initiative and Industry 4.0 Program.

11. **Despite these challenges, there is growing momentum in the entrepreneurship and innovation ecosystem, as evidenced by the introduction of the Startup Act and the launch of the 'Startup Tunisia' program.** The Startup Act, developed as a joint effort between the private sector, civil society, and the Government (Startup Task Force), provides a set of tax incentives and other measures to support the creation and growth of startups and SMEs in Tunisia (see Figure 4). In parallel, the Government is taking steps to establish the 'Startup Tunisia' program, which will provide a framework for implementing the Startup Act and mobilizing private sector risk capital for investments innovative startups and SMEs. The program will facilitate access to a combination of early stage equity financing, concept development and investment readiness grants, and support to ecosystem intermediaries.

Figure 4. Key Provisions under the Startup Act and Supporting Regulatory Framework

Key Pillars	Key Measures
Entrepreneurship culture	**Startup Leave**: a one-year leave, extendable to two-years, granted to any employee who leaves his job for the purpose of launching a startup. To be eligible, the employee must be tenured with at least 3 years of experience within his original company.
	Startup Stipend: establishment of a living stipend granted up to 3 founders of a startup during its first year of existence. The amount of the stipend is calculated based on the average previous income for employees and a fixed allowance for those unemployed.
	Patents: management and payment of patenting fees for Startups locally and internationally.
Facilitated procedures for creation, development & exit	**Startup Portal:** the point of contact for Startups with regards to administrative and regulatory processes related to the creation, development and, where appropriate, the liquidation of the Startup.
	SAS and Financial Instruments: reforming the Commercial Companies Code to include, among others, the Simplified Share Company (SAS), preferred shares, free shares and warrants (BSA).
Financing Startups	**Tax relief for individuals and entities** that invest directly in Startups or that subscribe into Venture Capital Funds dedicated to Startups, within the limits of income or profit subject to taxation.
	Tax relief on capital gain: Investments in startups are exempt from capital gain taxation.
	Valuating contributions in-kind: Startups making use of an in-kind contribution are authorized to designate themselves their own Contribution Auditors.
	Guarantee Fund for Startups: It guarantees Venture Capital Funds investments in startups. It intervenes only in case of voluntary liquidation.
Access to International Markets	**Technological Card:** An increase of the Technology Card ceiling for startups up to 100 kDT (≈40 kUSD) per year.
	Startup Account: Every startup has the right to open a special foreign exchange account in Tunisia, which it freely supplies through capital contributions, quasi-capital and revenues in foreign currencies.
	Facilitating Customs procedures: Startups are considered "Authorized Economic Operators" as per the Customs Code.

C. Relevance to Higher Level Objectives

12. **The proposed project is aligned with the GoT's Five-Year Development Plan (2016–2020), which aims to boost private sector investment, job creation and inclusive growth.** In particular, the project complements Axis 1 ('Financing the Economy') of the Five-Year Development Plan, which seeks to, among others, increase access to finance for SMEs. By mobilizing private sector capital, promoting innovation, and strengthening the entrepreneurship ecosystem, the project seeks to expand access to economic opportunities, including for women, youth and populations in lagging areas, thus contributing to eliminating extreme poverty and boosting shared prosperity in a sustainable manner.

13. **The project contributes to achieving the WBG twin goals and corporate priorities, including gender equality, maximizing finance for development (MFD), and disruptive technologies.** Project activities reaching beneficiaries in interior regions will contribute to the twin goals of eliminating extreme poverty and boosting shared prosperity in a sustainable manner. In addition, through targeted interventions to increase women's participation in entrepreneurship and the broader economy, the project is aligned with the WBG Gender Strategy and the MNA Regional Gender Action Plan. The project also directly contributes to MFD by mobilizing private sector risk capital for startups and SMEs through co-investments and other risk-sharing mechanisms. Finally, the project provides firm-level support for startups and SMEs to adopt disruptive technologies to enhance productivity, competitiveness, and growth. As such, the project will demonstrate how private capital and new technologies can be harnessed to facilitate inclusive entrepreneurship, innovation, and growth.

14. **The project contributes to implementation of the enlarged WBG Middle East and North Africa (MNA) Strategy with its focus on human capital development, digital transformation, and MFD.** The project supports Pillar 1 ('Renewing the Social Contract') of the MNA Strategy, which seeks to create opportunities for MNA youth by promoting broad-based private sector development, entrepreneurship, and inclusion in the interior regions. The project contributes to the 'Digital Entrepreneurship' pillar of the MNA Digital Economy for Africa Moonshot Initiative, by supporting innovative and technology-oriented startups and SMEs. It also contributes with the Maghreb Startup Network, launched in March 2018, to promote access to markets and regional collaboration between startups across the Maghreb region.

15. **The project is also aligned with the World Bank Group (WBG) Tunisia Country Partnership Framework (CPF) FY16–FY20 (Report no. 104123) and the IFC priorities for Tunisia.** The project contributes to the objectives under Pillar 1 ('Restoring an Environment Conducive to Sustainable Economic Growth and Private Sector-Led Job Creation') of the CPF. Specifically, the project is closely aligned with Objective 1.3 which seeks to foster sound financial sector development by expanding access to financial services for SMEs, with a specific focus on women and youth. Similarly, the project supports the IFC key priorities in Tunisia, which are to facilitate private investments to drive private sector-led job creation and promote competitive and inclusive economic growth. Specifically, IFC is leading activities that will enhance the project's impact by: (a) providing complementary funding, and (b) strengthening the entrepreneurship and ecosystem and addressing the nonfinancial barriers to the growth of innovative startups and SMEs (see Section II.F).

D. Relationship to other World Bank Group Projects

16. **The proposed project is part of a comprehensive WBG program to support entrepreneurship and job creation in Tunisia, comprising IBRD lending and technical assistance, as well as IFC investment and advisory services.** This includes World Bank Group activities aimed at improving access to markets and finance, strengthening the business environment, and building entrepreneurial and business development skills (see Figure 5). The project also leverages recent engagements to boost women's entrepreneurship and economic empowerment, including We-Fi, EmpowerHer, and IFC's Banking of Women initiative.

Figure 5. Overview of Relationship to Other World Bank Group Projects

Summary of Market Failures		WBG Projects
Access to Markets	• Inefficient and costly logistics and export procedures • Weak positioning of enterprises in low value chains, or low-value segments of high-value global value chains • Limited access to market opportunities for entrepreneurs and small firms, especially youth and women • Limited access to market for entrepreneurs and firms in lagging regions	Third Export Development Project (EDP III) IPF (P132381) Integrated Landscapes Management in Lagging Regions Project IPF (P151030) Youth Economic Inclusion IPF (P158138) Tunisia Irrigated Agriculture Intensification Project IPF (P160245) Value Chain Development for Jobs in Lagging Regions-Let's Work Program in Tunisia ASA (P157321)
Business and Regulatory Environment	• Fragile macroeconomic environment • Burdensome investment authorization requirements • Weak legal and regulatory framework for equity/risk capital investments • Weak credit regulatory and infrastructure framework	Tunisia Business Environment and Entrepreneurship DPL (P158111) (Closed) Tunisia Investment, Competitiveness and Inclusion DPL (P161483) Financial Sector Modernization Program – Technical Assistance ASA (P156301) (Phase 2) IFC Investment Climate Project Phase 2 ASA (Pipeline)
Entrepreneurship and Innovation Ecosystem	• Weak pipeline of innovative startups and SMEs • Lack of effective business development and innovation support for innovative startups and SMEs • Lack of incentives to support research commercialization and firm-level technology adoption • Limited participation of women, youth and people in lagging regions in entrepreneurship	IFC Accelerate for Youth ASA IFC Investment in Flat6Labs Accelerator Tunisia Tertiary Education for Employability Project IPF (P151059)
Access to Finance	• Lack of risk capital to support innovative startups and SMEs in the early stages of business development • Limited patient financing to support innovative startup and SME investments in R&D and technology adoption	IFC Banking on Women ASA Credit Infrastructure, Digital Financial Services and Financial Inclusion ASA (Moussanada Multi-Donor Trust Fund) MSME 2.0 ASA (Pipeline) MNA Micro, Small and Medium Enterprise Financing Facility IPF (124341) (Closed)

MARKET FAILURES ADDRESSED BY THE PROJECT

17. **The project benefits from IFC investment and advisory engagements.** As regards startups, IFC has committed to invest US$1 million in an accelerator (replicating its earlier successful experience in Egypt), which will strengthen the pipeline of startups that could benefit from this project. As regards innovative SMEs, IFC has several long-standing investments in Tunisian private equity ventures, which would be ideally placed to co-invest in SMEs targeted by the proposed project. Launched recently in support of the project (replicating its contribution in 2017 to the IBRD-funded Financing Innovative

Startups and SMEs Project in Morocco), IFC's Accelerate4Youth project will provide capacity building to a range of accelerators and incubators to strengthen the pipeline of startups for the proposed project. Finally, IFC was part of the funds structuring study and therefore is well-placed to provide advice as needed to its private manager. Given this vantage point, IFC would be expected to play a supporting role in mobilizing additional funding from international partners, both for investing in startups/SMEs as well as financing capacity building of the ecosystem. In time, as startups mature to increasingly challenging rounds of funding, surviving startups should become attractive to IFC venture funds.

18. **The project will ensure collaboration and leveraging of synergies across the different World Bank Group (IBRD and IFC) engagements and teams.** In doing so, the project will seek to deliver a well-coordinated program that improves the entrepreneurship environment and contributes to private sector-led job creation and economic growth.

II. PROJECT DESCRIPTION

A. Project Development Objective

19. **The Project Development Objective (PDO) is to increase access to finance and support the growth of innovative startups and small and medium enterprises.**

20. **Innovation will be defined as new or improved products, processes, business models, and goods and services that are new or improved to Tunisia or other markets (see Box 1).**[18] Particularly, focus will be on technology-driven innovation, which has the potential to deliver high growth and scalability.

Box 1. Definition of Innovation (OECD Oslo Manual, 3rd Edition, 2005)

- **Product innovation.** The introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses. This includes significant improvements in technical specifications, components and materials, incorporated software, user-friendliness, or other functional characteristics. Product innovation can use new knowledge or technologies or can be based on new uses or combinations of existing knowledge or technologies.
- **Process innovation.** The implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment, and/or software. Process innovation can be intended to decrease unit costs of production or delivery, to increase quality, or to produce or deliver new or significantly improved products.
- **Marketing innovation.** The implementation of a new marketing method involving significant changes in product design or packaging, product placement, or product promotion or pricing. Marketing innovations are aimed at better addressing customer needs, opening up new markets, or newly positioning a firm's product on the market, with the objective of increasing the firm's sales
- **Organizational innovation.** The implementation of a new organizational method in the firm's business practices, workplace, organization, or external relations. Organizational innovations can be intended to increase a firm's performance by reducing administrative costs or transaction costs, improving workplace satisfaction (and thus labor productivity), gaining access to non-tradeable assets (such as codified external knowledge), or reducing costs of supplies.

[18] OECD. 2005. *Oslo Manual: Guidelines for Collecting, Reporting and Using Data on Innovation, 3rd Edition*. Paris: OECD

B. Project Beneficiaries

21. **The final project beneficiaries will be innovative startups and SMEs, defined as new or existing, formally established firms with less than 200 employees.**[19] The investment strategy and eligibility criteria, along with deal flow activities, will ensure that funding is allocated to early stage startups and high-growth technology-based SMEs. In addition, the project will focus on increasing the participation of women-led startups and SMEs and expanding project activities to lagging areas and interior regions.

22. **Intermediate beneficiaries will include private sector intermediaries that provide risk capital and business development services (BDS) to innovative startups and SMEs.** These actors will include private sector financial intermediaries (FIs), such as PE/VC funds; and private sector entrepreneurship ecosystem intermediaries, such as incubators, accelerators, and other BDS providers.

C. PDO-Level Results Indicators

23. **The PDO will be measured through the following key indicators**:

(a) Private capital mobilized for innovative startups and SMEs through the project

(b) Innovative startups and SMEs receiving financing through the project, disaggregated by gender of company owners or leaders[20] and by location of innovative startups and SMEs

(c) Increase in annual revenue of beneficiary startups and SMEs three years after receiving support through the project[21]

24. **The project is expected to contribute to job creation in the long term, with the majority of jobs being indirect jobs created through spillover effects in value chains.** The number of new direct and indirect jobs created by project beneficiaries (startups and SMEs) will be tracked through regular surveys of project beneficiaries. The project is expected to contribute to the creation of approximately 1,857 direct jobs, of which at least 557 jobs (30 percent) will be taken up by female beneficiaries and 371 jobs (20 percent) by youth beneficiaries between 18 and 35 years.[22] The project will also adopt best practice frameworks to measure indirect job creation, and will monitor the number of direct and indirect jobs created through regular surveys of project beneficiaries and other stakeholders (see Annex 2).

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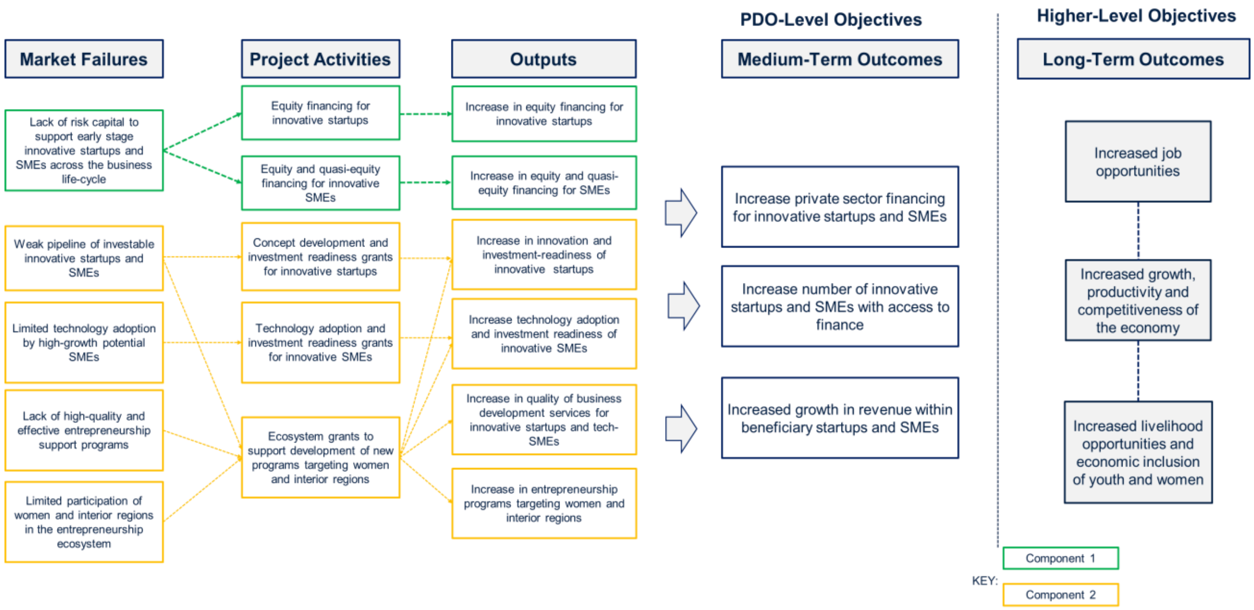
[19] This definition reflects findings from the World Bank Report on HGFS, which indicates that HGFs are young, but not necessarily small or concentrated in high-tech industries.
[20] Leaders include senior managers, board members, and other persons in leadership positions within the firm.
[21] Tracking this indicator would require firm-level beneficiary surveys to be administered at project start, mid-term review and project end. A seven-year project duration would allow for project support to enable beneficiaries to achieve target growth rates.
[22] These figures have been arrived at by summing: (a) for SMEs—out of a total public and private investment of US$34 million, every US$100,000 invested will yield one job, for a total of 340 jobs (i.e., 7 jobs per SME on average), and (b) for startups—out of a total of US$91 million, every US$30,000 invested in startups will yield one job, assuming exponential growth albeit with an average 50 percent failure rate (across seed, early, and growth stage startups). This will result in a total of 1,517 jobs (i.e., 7 jobs per startup). These assumptions and methodology will be further refined during project implementation.

D. Results Chain

25. **The project aims to address the market failures that constrain access to finance and the provision of high-quality BDS to innovative startups and SMEs in Tunisia.** The theory of change underlying the project is that addressing the gap in risk capital and entrepreneurship support for innovative startups and SMEs is essential to boosting productivity and inclusive growth. The project rationale is therefore based on the following results chain (see Figure 6).

Figure 6. Project Results Chain



E. Project Components

26. **The project builds on the GoT's 'Startup Tunisia' program, which aims to mobilize private sector capital and facilitate access to business development support for innovative startups and SMEs.** 'Startup Tunisia' program includes two financing facilities to be structured and managed based on private sector commercial practices: (a) **Anava Fund of Funds for Startups**—which will provide innovative startups with early stage equity through investments in underlying funds managed by private sector FIs; and (b) **InnovaTech Fund for SMEs**—which will provide innovative, technology-based SMEs with equity and quasi-equity investments through direct co-investment with partner private sector investors.[23] The program will also facilitate access to acceleration and incubation services for innovative startups, and technology adoption and innovation support for innovative SMEs. The program will be managed by a private sector fund management company, Smart Capital, to be established by the Government.

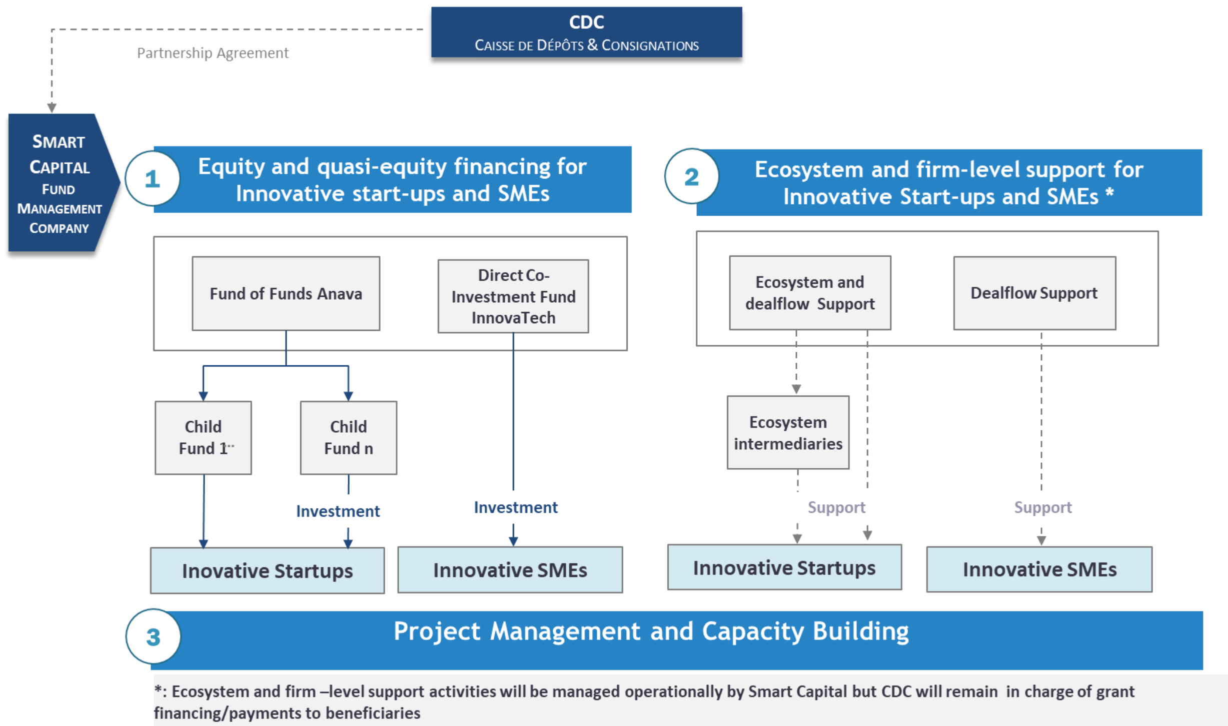
27. **Additional resources will be leveraged from private sector investors, while support for the 'Startup Tunisia' program is expected from development finance institutions (DFIs) and other donors.** Private sector investment will be mobilized as investors in funds under the Anava Fund of Funds, or as co-investments in specific deals under the InnovaTech Fund. Several DFIs, including IFC, Proparco, and the German Development Bank (*Kreditanstalt für Wiederaufbau,* KfW), may invest in both funds as limited

[23] Anava Fund of Fund and Innovatech Fund will be financial vehicles managed by Smart Capital fund management company.

partners, whereas other donors, including the EU, *Agence Française de Développement* (AFD), and GIZ, are expected to provide additional funding to finance the provision of ecosystem and business development support activities.

28. **The project will therefore comprise three components: (a) Equity and Quasi-Equity Financing for Innovative Startups and SMEs, (b) Ecosystem and Firm-Level Support for Innovative Startups and SMEs, and (c) Project Management and Capacity Building.**

Figure 7. Project Components



29. **Table 1 summarizes loan allocation across three components and related project activities.** It should be noted that the allocation across components will remain flexible to accommodate the evolving needs of project beneficiaries and the ecosystem during project implementation. The design and allocation of funding to Component 2 considers complementary donor programs as well as additional funds expected to be mobilized from donors and development partners as parallel or co-financing. However, should additional funds not materialize or be insufficient to ensure adequate support during project implementation, the allocation to Component 2 may be increased. Overall, implementation of the project activities under all three components will begin independent of mobilizing additional funds from other donors, development partners, or DFIs.

Table 1. Project Activities and Initial Allocations to Components

Project Activity	World Bank Loan (US$, millions)
1. Equity and Quasi-Equity Financing for Innovative Startups and SMEs	**62**
Anava Fund of Funds for Innovative Startups	45
InnovaTech Fund for Innovative SMEs	17
2. Ecosystem and Firm-Level Support for Innovative Startups and SMEs	**8**
Startup Ecosystem and Deal Flow Support	5
SME Investment Readiness and Technology Adoption Support	3
3. Project Management and Capacity Building	**5**
Total	**75**

Component 1: Equity and Quasi-Equity Financing for Innovative Startups and SMEs (US$62 million)

30. **Under this component, the project will provide equity and quasi-equity financing through both Anava Fund of Funds and InnovaTech Fund to invest in approximately 280 innovative startups and SMEs.** This component will finance the provision of the following equity investments: (a) equity and quasi-equity financing to eligible innovative startups, through Anava Fund of Funds (through 'participating financial intermediaries' or PFIs); and (b) equity and quasi-equity financing through InnovaTech Fund to eligible innovative SMEs. Both funds will be capitalized by the Deposits and Consignments Fund *(Caisse des Dépôts et Consignations*, CDC) using the proceeds from the World Bank loan. Through this component, the project will also finance the management fees associated with the investments made by the two funds.

31. **The project's investment approach–using two financial vehicles targeting two distinct categories of beneficiaries[24]–has been designed in accordance with international best practices, tailored to the Tunisian context.** The indirect investment (fund of funds) approach adopted for innovative startups enables public sector investors to leverage private sector expertise in the selection and management of investments. This is especially important where public sector capacity to manage complex, high risk early stage investments is limited, and where there is a need to obtain broad diversification of risks across various fund managers and underlying investments. Although the fees associated with fund of funds may be higher than that of traditional investment funds, the benefit to the Tunisian context is expected to outweigh the costs, as this model will contribute to building a cadre of fund managers with expertise in early stage investments who will be able to invest in startups beyond the life of the project. Similarly, the direct co-investment model adopted for innovative SMEs also allows the GoT to leverage private sector capital and expertise for investments in potentially sophisticated SMEs. Given the project focus on innovative SMEs with technology-orientation and high-growth potential, a co-investment approach will allow private sector expertise to be leveraged for the selection of viable investments, in view of the

[24] Specific eligibility criteria for innovative startups (targeted by ANAVA) and innovative SMEs (targeted by InnovaTech) are provided below.

relatively larger investment ticket[25] and sophisticated profile of such innovative SMEs that will seek funding under InnovaTech Fund.

32. **Investment decisions and management of both funds will be based on private sector principles and expertise and will ensure private sector ownership of project implementation.** The Government and the Project Coordination Unit (PCU) will not play a role in the review, selection, or management of investments undertaken by Smart Capital. Smart Capital (Anava and InnovaTech fund management company) will have a public-private Board of Directors (BOD), with clear roles related to the strategic oversight of the funds and not to investment decisions and operations. Each fund will have a private investment committee (IC), with independent members whose appointment will be subject to no-objection from the World Bank. The private ICs will be composed of experts in early stage equity investments from the private sector, including from diaspora. The ICs will be solely responsible for making decisions on investments in child funds (under Anava) and in innovative SMEs (InnovaTech). Section III and Annex 1 discuss the governance and implementation arrangements for Smart Capital.

33. **Anava Fund of Funds investments will be balanced across three high-risk enterprise stages (seed stage, early stage, and growth stage) while InnovaTech Fund investments will focus on established SMEs undergoing a growth spurt.** Table 2 shows indicative investment parameters for both funds. Investments may be in the form of equity or quasi equity such as convertible notes[26] and other forms of patient financing left at the discretion of the ICs within strategies set by their Strategic Committees. Acceptable investment criteria are set forth in the Project Operational Manual (POM) and may be adjusted depending on lessons learned during project implementation support. Details on investment strategy and investment selection criteria are provided below as well as in the POM.

Table 2. Broad Investment Parameters

	Smart Capital				**Total**
	Anava Fund of Funds (Indirect Investment)			**InnovaTech Fund (Direct Co-Investment)**	
Investment stage	**Seed Stage** (US$50,000–US$300,000)	**Early Stage** (US$300,000–US$500,000)	**Growth Stage** (US$500,000–US$1,000,000)	**Growth Stage** (US$300,000–US$1,000,000)	
Allocation	**US$20 million**	**US$22 million**	**US$3 million**	**US$17 million**	**US$62 million**
FIs	Accelerators, angel networks, and seed stage funds	Accelerators stage and VC funds	VC funds	Co-investment with VC funds and other private investors	
Sectors	Opportunistic with focus on digital media, education technology, health technology, financial technology, green technology and renewable energy, agribusiness, manufacturing, ICT and electronics, big data and analytics, and marketplaces and e-commerce				
Target number of funds	Up to 3 funds	Up to 2 funds	1 fund	1 fund	Up to 7 funds
Target fund size	Up to US$10 million	Up to US$22 million	Above US$20 million	US$34 million	

[25] Investment ticket means the size of the investment transaction.
[26] A convertible note is a loan that converts into equity at investor discretion, typically in conjunction with a future financing round. A holder of a note that opts to convert would receive equity in the company instead of a return in the form of principal plus interest.

	Smart Capital				Total
	Anava Fund of Funds (Indirect Investment)			InnovaTech Fund (Direct Co-Investment)	
Allocation per fund	Up to US$7.5 million	Up to US$11 million	US$3 million	US$17 million	
Private leverage (%)	25	50	85	50	
Private leverage	Average US$2.3 million per fund (US$7 million total)	US$11 million per fund (US$22 million total)	US$17 million	US$17 million	**US$63 million**
Number of companies	90–100 companies	90–100 companies	20–25 companies	40–50 companies	About 280 companies
Total funds	**US$27[a] million**	**US$44 million**	**US$20 million**	**US$34 million**	**US$125 million**

Note: [a]Total funds reflect a project allocation/private leverage of US$7.5 million/US$2.5 million for 2 funds and US$5 million/US$1.7 million for 1 fund. Figures have been rounded.

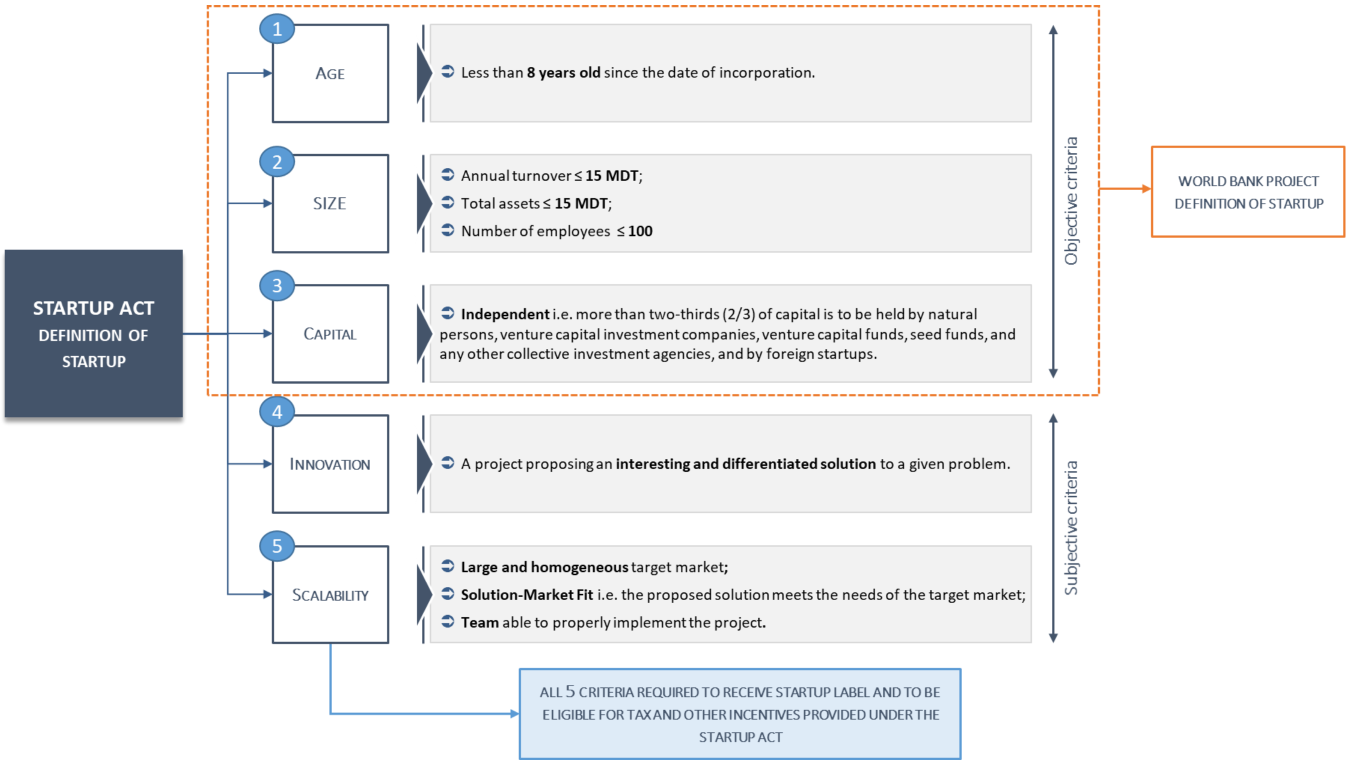
34. **The project aims to leverage additional US$63 million in investments through partner investors in child funds (under Anava Fund of Funds) and co-investors (with InnovaTech Fund)**. Private leverage is expected to increase as the risk associated with underlying enterprise stage decreases. Specifically, under the Anava Fund of Funds, every US$1 of project funds will be expected to generate additional private funding of US$0.3 at seed stage, US$1 at early stage and US$6 at growth stage for investments in innovative startups. Similarly, under the InnovaTech Fund, every US$1 of project funds will be expected to generate an additional US$1 in private funding for investments in innovative SMEs. Acceptable child funds for the Anava Fund of Funds include seed and angel funds, accelerators, VC funds, crowdfunding platforms and other investors who meet the project criteria as indicated in the POM. Partner investors for InnovaTech would be expected to be mainly VC funds and investment banks (patient lenders). As noted above, additional funding for the Anava Fund of Funds may be mobilized from other DFIs such as the IFC, Proparco and KfW.

35. **Eligibility criteria for innovative startups receiving financing under Anava Fund of Funds are aligned with the Startup Act and further outlined in the POM.** Innovative startups are defined as firms having less than 100 employees, less than TND 15 million in assets and annual turnover, less than 8 years, and with an independent capital structure.[27] As shown in Figure 8, these criteria are aligned with the objective criteria (age, firm size, and firm capital structure) set out in the Startup Act and related Government decree.[28] However, the project provides additional criteria to determine innovation (as noted in Section II.A) and scalability in the POM to provide PFIs the flexibility to assess innovation, scalability, and growth potential of startups.

[27] Independent capital structure owned more than two-thirds by natural persons, VC investment companies/funds, or foreign startups (Startup Act).

[28] The Startup Act and Government Decree No. 2018-840 dated 11 October 2018 sets out the objective and subjective criteria to be met by firms who seek to obtain the 'Startup Label' and to receive tax incentives and other benefits provided under the act. A selection committee, or '*College de Startups*', has been established with the responsibility to review firm applications and assess both objective and subjective criteria of applicants. Firms may also receive the 'Startup Label', if they have already received an equity investment and they meet the objective criteria set out in the Startup Act and Government decree. For this project, startups will be defined as those meeting the objective criteria (firm age, size, and capital structure) set out in the act and decree, and additional subjective criteria (innovation, scalability, and so on) outlined in the POM and will be assessed at the discretion of the fund managers and PFIs.

Figure 8. Startup Act Definition of Startups versus Project Eligibility Criteria

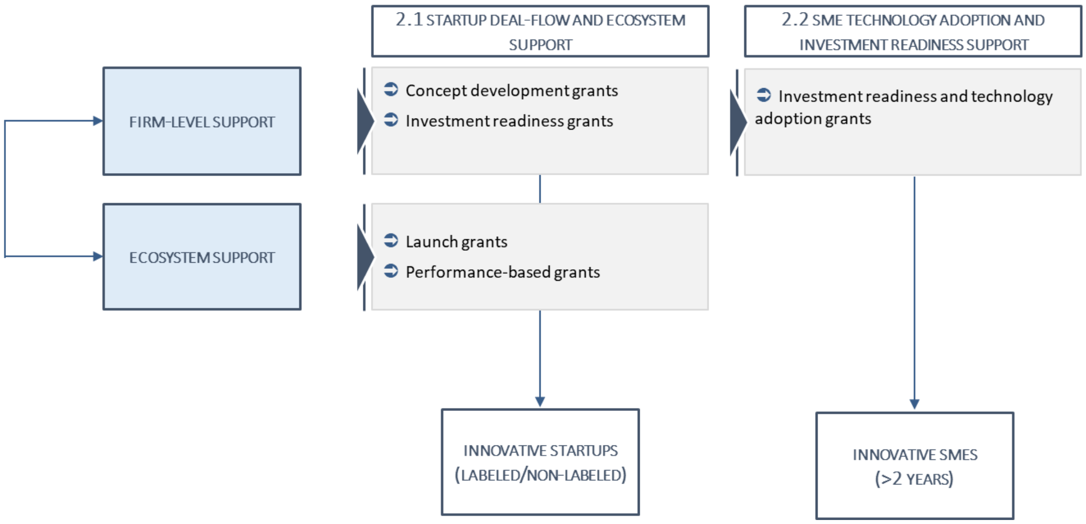


36. **Similarly, eligibility criteria for innovative SMEs receiving financing under InnovaTech Fund are outlined in the POM.** Innovative SMEs will be defined as firms with less than 200 employees that have been in existence for more than 2 years, and that possess a technology orientation with high growth potential. Additional eligibility criteria are further set out in the POM to enable PFIs to assess the innovation, technology orientation, and growth potential of innovative SMEs, and to ensure that no firm qualifies for funding under both Anava and InnovaTech Funds at the same time.

Component 2: Ecosystem and Firm-Level Support for Innovative Startups and SMEs (US$8 million)

37. **Under this component, the project will provide grants to startups and ecosystem intermediaries to build a high-quality deal flow and strengthen the entrepreneurship ecosystem.** This component will finance the provision of concept development and investment readiness grants for innovative startups; ecosystem launch and performance-based grants to entrepreneurship ecosystem intermediaries, such as accelerators, incubators, and other BDS providers; and investment readiness and technology adoption grants to innovative SMEs. Figure 9 outlines specific activities funded by the project.

Figure 9. Ecosystem and Firm-Level Support for Innovative Startups and SMEs



38. **This component complements existing and planned donor programs supporting the entrepreneurship ecosystem in Tunisia, including:** (a) the IFC Accelerate4Youth Project which provides capacity building to accelerators and incubators (US$1.5 million); (b) the AFD Entrepreneurship Program which includes support to business angels and the network of public '*pépinières*' (US$2 million); (c) the GIZ MakeIT Initiative which aims to strengthen the Tunisian Tech startup ecosystem (US$1 million); (d) the GIZ Industry 4.0 Initiative which includes awareness raising, capacity building, and support for implementation of Industry 4.0 solutions (US$11 million); and (e) the EU Entrepreneurship Program which includes capacity building on early stage equity investments for local fund managers (US$15 million). Additional funds may be mobilized from donors as parallel or joint co-financing for project activities. However, the IBRD loan allocation to activities within this component will remain flexible to accommodate potential shortfalls or delays in other donor programs, as well as to accommodate the evolving needs of project beneficiaries and the ecosystem.

39. **Specific activities will be delivered under subcomponent 2 (grants to SMEs) to increase the participation of women in the entrepreneurship ecosystem, expand ecosystem services to lagging areas and support climate solutions.** In line with analytical findings and insights from gender-focused consultations (see Annex 4), the project will integrate a series of activities to support women entrepreneurs. The interventions will include awareness raising and outreach to women entrepreneurs, as well as support to male and female entrepreneurs related to concept development and investment readiness. In addition, through grants to ecosystem intermediaries, the project will provide a range of hard and soft skills training; access to networks; and access to expertise to entrepreneurs, including women and those in lagging regions. Similarly, ecosystem grants will include incentive-based measures to ensure that programs are inclusive of women entrepreneurs and entrepreneurs in interior regions, or to provide support to entrepreneurs from interior regions to participate in programs delivered in key entrepreneurship and innovation hubs, such as Sousse, Sfax, and Tunis. Lastly, deal flow activities (preparing startups and SMEs for investments under component 1) will be designed to provide tailored support to create and scale up startups and SMEs contributing to climate change adaptation and mitigation.

Subcomponent 2.1: Startup Ecosystem and Deal Flow Support (US$5 million)

40. **At the startup level, the project will provide US$3 million in grants to support concept development and investment readiness for startups.** Startups eligible for these grants will be those with less than 100 employees, less than TND 15 million in assets and annual turnover, and less than 8 years, and with an element of innovation and scalability (as outlined in component 1 and the POM). To encourage eligible women applicants, a comprehensive outreach and media strategy will target women entrepreneurs by profiling role models and leveraging women's networks. Specific details of the grants are outlined below:

(a) **Concept development grants (up to US$20,000 each).** The concept development grants will be provided to pre-seed stage innovative startups to advance the development of a promising idea and a viable team. These grants have proven to be an important feature of similar World Bank Group projects in stimulating new startups and in providing an 'early' sight to investors on promising new projects and ventures. Such grants are particularly important in ensuring that talented potential teams, particularly young teams can enter the ecosystem. The criteria and process for selection of beneficiaries and management of the grants are further detailed in the POM.

(b) **Investment readiness grants (up to US$50,000 each).** The investment readiness grants will aim at filling the gap between seed-level financing and the attraction of investments. Grants for this stage of enterprise are widely used in other jurisdictions as investor risks remain high, particularly in markets where early stage risk investing is nascent, where startups may still be 'pre-revenue' or have limited revenues, and where alternative sources of capital are non-existent. Such grants are also important in supporting more innovation intensive ventures that are generally more capital intensive and have a longer development cycle. Additional criteria and process for selection of beneficiaries and management of the grants are further detailed in the POM.[29]

41. **At the ecosystem level, the project will provide US$2 million in grant funding to support new and existing ecosystem intermediaries.** Project activities will tackle two key issues faced by Tunisia's entrepreneurship ecosystem: (a) the limited reach of ecosystem players, including to entrepreneurs outside coastal regions and women entrepreneurs, and (b) the gap in providing sufficient, high-quality or sector-specific support to innovative startups. Eligible ecosystem intermediaries will include incubators, accelerators, co-working spaces, as outlined below and in the POM. The following grants will be made available for eligible ecosystem intermediaries:

(a) **Launch grants (US$1 million).** These grants of up to US$100,000 will support private sector entrepreneurship ecosystem players (such as accelerators, incubators, and coworking spaces) to support the launch of new players or new programs/initiatives (by existing players) introducing higher quality incubation and acceleration programs and/or targeting

[29] Among the criteria, the POM highlights that startups will be expected to justify an investment intent from prospective investors to be considered eligible for the investment readiness grants.

entrepreneurs in lagging areas or women entrepreneurs. In particular, these grants will encourage players that propose a differentiated approach and service provision to entrepreneurs or have a sectoral focus (for example, fintech, artificial intelligence, cleantech, green technology, etc.). Prospective applicants will also be encouraged to propose programs that include tailored activities for women entrepreneurs (e.g., hard and soft skills training; access to mixed-gender mentoring and networks; and solutions to address child care and other gender-specific constraints), as well as innovative approaches to expanding programs to interior regions. The grants will therefore contribute to stimulating the entry of new, high-quality players in the entrepreneurship ecosystem. These grants will finance launch expenditures such as material, furniture, training programs, and may also include support for entrepreneurs in remote regions to attend programs. The criteria and process for selection of ecosystem intermediaries and management of the grants are detailed in the POM.

(b) **Performance-based grants (US$1 million).** These grants will be provided to existing eligible private sector accelerators and incubators to scale up the number of startups supported and to improve the quality of their acceleration and incubation services, based on performance. Specific key performance indicators (KPIs) will be used to identify startups that are able to obtain the 'Startup Label' and/or raise equity financing; and meet minimum targets in terms of number of women-led startups or startups with significant operations in lagging regions or areas that receive the label and/or raise equity financing. Details on the KPIs, beneficiary selection criteria, and management of the grants are further outlined in the POM.

42. **Smart Capital will be responsible for managing the activities under this subcomponent, leveraging private sector expertise for the selection of beneficiaries and the implementation of activities.** A public-private selection committee will be established to select and award grants to successful startups and ecosystem intermediaries. The selection committee will include existing entrepreneurs, investors, and other private stakeholders, including the diaspora, who are knowledgeable about entrepreneurship, technology and have experience across various industries. The selection process will be transparent, with clear selection and eligibility criteria outlined in the POM.

Subcomponent 2.2: SME Investment Readiness and Technology Adoption Support (US$3 million)

43. **This subcomponent aims to build a high-quality deal flow of innovative SMEs for planned financing activities under the InnovaTech Fund.** Specifically, a US$3 million support program will be implemented that provides investment readiness and technology adoption grants for established SMEs with technology-orientation and high growth potential. Support will be provided to a broad target market of technology-intensive SMEs across sectors and operating (directly or indirectly through supply chains) in international markets. This cohort of firms is under constant competitive pressure due to increasing competition, resulting in a need to innovate their product offering, improve productivity, and reduce costs.

44. **The project will provide grant funding to innovative SMEs for investment readiness and technology adoption support.** Beneficiary SMEs will be pre-identified through various existing initiatives

(including the GIZ Industry 4.0 Initiative, Smart Tunisia Program, and Technopoles, among others)[30] and selected by the project based on criteria and procedures outlined in the POM. Specifically, the grants will finance firm-level diagnostics, the preparation of actions plans for investment and technology adoption, and the implementation of such plans. Each SME will be eligible for up to US$50,000 to purchase consulting and training services from local and international BDS providers or to purchase any relevant equipment. A dedicated private sector business adviser will coach each SME throughout the process to ensure implementation progress. Disbursements will be based on the achievement of milestones within the action plan. The project will coordinate with the GIZ Initiative, which will facilitate access to German technology expertise through the world-renowned Fraunhofer Institute and its network of SME 4.0 Centers of Excellence. In addition, the project will coordinate with Dutch *Programma Uitzending Managers* (PUM) and German *Senior Experten Service* (SES) to mobilize international experts during implementation.

45. **Smart Capital will be responsible for managing the activities under this subcomponent, also leveraging private sector expertise for the selection of beneficiaries and implementation.** A public-private selection committee will be established to select and award grants to eligible tech-SMEs. Eligible tech-SMEs will be selected through a call for proposal and according to transparent criteria defined in the POM.

Component 3: Project Management and Capacity Building (US$5 million)

46. **This component will cover the costs incurred by the CDC in its role as the PCU.** Specific eligible expenses will include costs related to: (a) project management, monitoring and evaluation (M&E), including the establishment and implementation of a management information system (MIS); (b) carrying out of capacity-building activities and providing advisory services for the benefit of the PCU, Smart Capital, PFIs and fund managers on project-related legal, administrative, environmental, social, and M&E matters; and (c) carrying out of relevant capacity building, communication and outreach activities, including the establishment of a grievance redress mechanisms.

F. Rationale for Bank Involvement and Role of Partners

47. **The rationale for World Bank Group involvement is to help the Government support the growth of innovative startups and SMEs in Tunisia.** There are few private investors providing risk capital for innovative startups in the very early stages of business development. At the same time, few private investors offer ‘patient’ financing for tech-SMEs that are more established, yet undercapitalized. Government intervention is therefore needed to catalyze private sector investment and increase access to finance for innovative startups and SMEs. More importantly, Government intervention through the project will focus on mobilizing additional private investment, by investing in existing private sector funds that target innovative startups and SMEs (the ‘fund of funds’ approach), as well as by co-investing directly in innovative startups and SMEs with private sector investor partners. This will create a strong demonstration effect that will encourage private sector players to increase their market presence and develop financing solutions for innovative startups and SMEs in Tunisia.

[30] These initiatives undertake mainly diagnostic and awareness-raising activities related to technology adoption and Industry 4.0, while the project will provide grant funding for SMEs to prepare for investment or to adopt specific technologies.

48. **The World Bank Group has a track record of supporting clients to build robust entrepreneurial ecosystems, through investment lending, technical assistance, and advisory services.** Building on similar project experience in Morocco, Jordan, Lebanon, Mexico, India, and others, the World Bank can leverage expertise from various Global Practices and from IFC Investment and Advisory. The World Bank Group will also play a convening and coordinating role, bringing together other DFIs, donors, and development partners.

49. **The project will coordinate closely with IFC advisory services and investment projects supporting the entrepreneurship ecosystem in Tunisia.** On the advisory side, the Accelerate4Youth project seeks to build and strengthen the pipeline of projects of youth entrepreneurs by providing capacity building to accelerators and incubators, supporting the provision of high-quality acceleration and incubation services to startups, and will therefore enhance the quality of the pipeline of startups that could benefit from the World Bank-funded project. Accelerate4Youth is in pre-implementation stage and the selection of the first partner (accelerator/incubator) is ongoing. On the investment side, IFC has committed to invest US$1 million investment in an accelerator and VC program in Tunisia. This investment will contribute to enhance the quality of the pipeline of startups and SMEs that would benefit from project support.

50. **The World Bank Group will also coordinate with other donors and development partners to implement both the financing and non-financing interventions under the project.** In particular, the World Bank Group, AFD, and KfW (together with IFC) are represented in the Steering Committee of the project to design the Anava Fund of Funds and are expected to remain as part of the Strategic Committee of the fund once it is launched. The AFD is currently providing technical assistance to the GoT to finalize the structure of the Anava Fund of Funds, and KfW has announced a 20 percent direct equity investment in the fund. As noted in Component 1, additional funding may be mobilized from other international institutions for both Anava and InnovaTech funds. Similarly, the World Bank will leverage other programs being undertaken by donors (IFC, GIZ, AFD, and EU) to strengthen the entrepreneurship ecosystem, as highlighted in Component 2. The World Bank Group maintains an ongoing close dialogue with these partners and is working toward creating a donor coordination platform that will facilitate coordination and complementarity of project activities during implementation.

G. Lessons Learned and Reflected in the Project Design

51. **The project design considers recent findings from the World Bank report[31] on HGFs.** The report indicates that although the share of HGFs in the overall firm count tends to be small across developed and developing countries, more than half of all new jobs and sales are created by HGFs. In addition, the report finds that while HGFs are often young, they are not necessarily small and do not tend to be concentrated in high-tech industries. Additionally, HGFs are found to experience high growth in episodes following or preceding periods of low growth. The project considers these findings, by targeting innovative startups and SMEs with high-growth potential across economic sectors and locations.

52. **Lessons learned from the recently closed MNA Micro, Small and Medium Enterprise Financing Facility (P124341) have also been incorporated in the project design.** An important lesson learned from the MSME Financing Facility, as reflected in the Implementation Completion and Results Report (ICR), is

[31] World Bank. 2018. *High-Growth Firms: Facts, Fiction, and Policy Options for Emerging Economies (Report no. 132062).*

the need for financing interventions to move beyond the provision of bank credit, particularly where fixed collateral requirements pose a persistent constraint for small, young, and technology-oriented firms. In addition, the ICR noted the need to design specific activities and M&E frameworks that capture and ensure outreach of project benefits to women, youth, and populations in lagging and interior regions. These lessons have been considered, as the project provides startups and SMEs with access to alternative financial instruments (early stage equity and patient financing), as well as undertakes targeted interventions to increase and monitor the participation of women, youth, and lagging and interior regions in the project (see Box 2).

53. **The project design also incorporates lessons learned from similar World Bank-funded projects on access to finance and entrepreneurship in MNA and beyond.** Specific lessons from the Morocco Innovative Startups and SMEs Project (P127482), Jordan Innovative Startups Fund Project (P161905), Lebanon Supporting Innovation in SMEs Project (P127306), Egypt Catalyzing Entrepreneurship for Job Creation (P162835), and the Kenya Industry and Entrepreneurship Project (P161317) are summarized below:

- **Financing alone is insufficient to boost the growth of innovative startups and technology-based SMEs**, and a comprehensive package of financial and nonfinancial services—including mentoring, training, business advisory services, and networking—is necessary to sustain the growth of startups and SMEs.

- **Efforts to develop a strong pipeline of investment-ready deals should ensure that adequate capital is available for follow-on funding as the market evolves.** Experience from Morocco and Lebanon highlights that lack of follow-on funding for startups after they have received initial grants and/or seed investment can be an obstacle to their growth.

- **While direct co-investment with private sector investors allows for risk-sharing on specific deals, the process can be time-consuming and may cause disbursement delays.** Providing the option to invest in startups and SMEs through a fund of funds approach therefore provides the benefit of a more streamlined and investment selection process and an opportunity to leverage greater resources from the private sector.

- **Publicly funded entrepreneurship programs should ensure that strong talent and high-performance culture is developed within ecosystem intermediaries.** Unlocking funding based on successful performance can incentivize intermediaries to develop and implement high-quality programs.

- **Flexibility in the selection of partners, funds, and co-investors is essential for the successful execution of project activities**. With the exception of environmental and social (E&S) safeguard restrictions, project activities should allow for flexibility to attract as many private sector investors and viable deals to the market.

Box 2. Gender Analysis and Interventions Incorporated in the Project

The project design addresses the challenges faced by women entrepreneurs and women-led startups and SMEs, as outlined in Annex 4. In particular, the gender assessment, including the consultations conducted with women-led startups, SMEs, and women in science, technology, engineering, and mathematics (STEM), revealed the following constraints and challenges facing women entrepreneurs:

- **Education.** Tunisia has made considerable strides in achieving gender equality in primary, secondary, and tertiary education. Notably, Tunisia has one of the highest rates of female graduates in ICT (61 percent women versus 39 percent men).[32] However, the share of young women not in education, employment, or training is at 31 percent compared to 19 percent for young men. In rural areas, these figures rise to 50 percent for young women and 33 percent for young men.[33]
- **Economic opportunities.** Women's participation in the labor market is low, at 25 percent in 2017 compared to 71 percent for men. Women are less financially included than men, with only 28 percent of women with a bank account compared to 46 percent of men; and only 5 percent of women having borrowed from a financial institution in the last year, compared to 12 percent of men.[34]
- **Entrepreneurship.** Although Tunisia has the highest rates of female participation in firm ownership in MNA (50 percent), only 3 percent of firms are majority owned by women. Constraints to entrepreneurship include, challenging social norms and limited role models; lack of access to finance; limited access to networks, industry expertise, and business coaching; limited hard skills (e-commerce, financial management (FM), and human resources management); and soft skills (pitching, negotiation, and leadership).

The project design therefore incorporates activities to address these challenges in line with best practices, and seeks to track the progress of women-led startups and SMEs through the project. Interventions are incorporated in the project to increase the participation of women in the entrepreneurship ecosystem (see Component 2). Specific activities will include marketing campaign to raise visibility and awareness of successful women entrepreneurs; hard skills training on FM, business management, e-commerce, and digital marketing; soft skills training on leadership, initiative, negotiation, and pitching; access to mixed-gender networking opportunities, industry experts and business advisers. The project will also seek to ensure women are able to graduate from concept development grants to investment readiness grants, to enable more women-led startups and SMEs to raise equity investment. The project will track the progress of women entrepreneurs and women-led startups and SMEs in the results framework, by tracking the number of women-led startups and SMEs that receive equity financing, and the number of women-led startups and SMEs that receive concept development and investment readiness grants (see Section VII). Additional monitoring of women-led firms will be conducted as part of the M&E framework (see Annex 2).

[32] United Nations Educational, Scientific, and Cultural Organization Institute of Statistics (UNESCO UIS) 2017 figures.
[33] World Development Indicators; and Tunisia Breaking the Barriers to Youth Inclusion (World Bank Group)
[34] Findex 2017. http://microdata.worldbank.org/index.php/catalog/3231

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

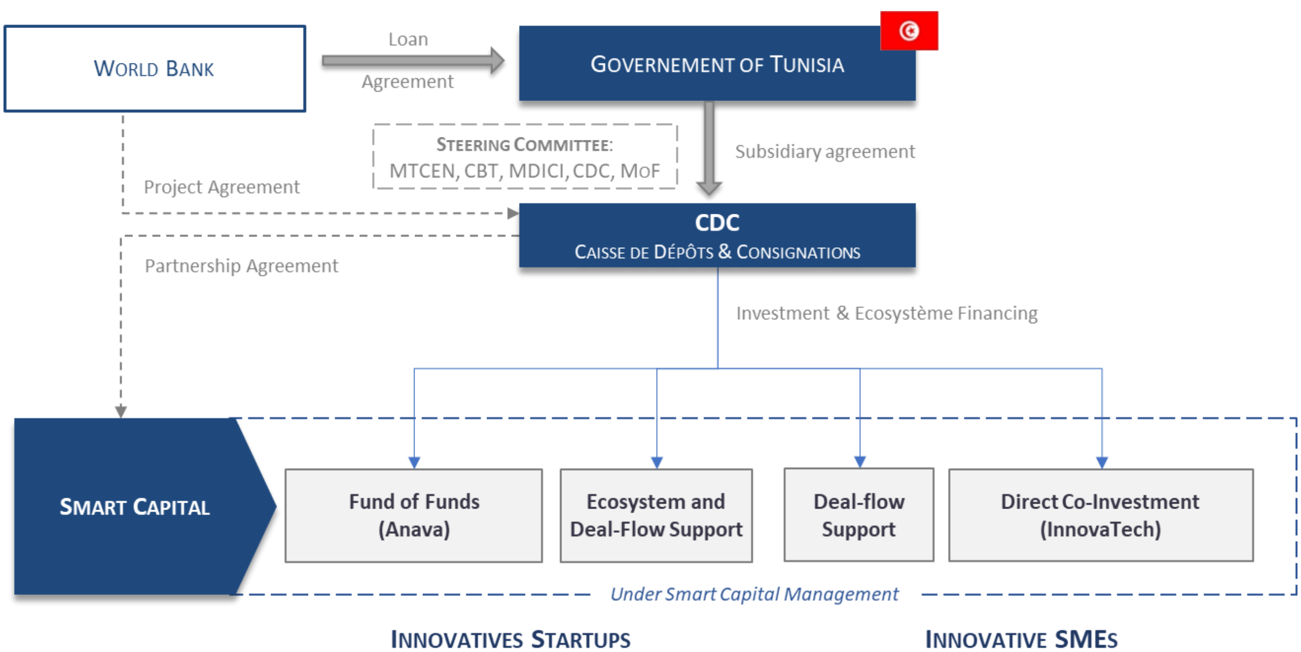
54. **The institutional and implementation arrangements for the project are based on public-private partnerships, with an emphasis on private sector practices for implementation.** The CDC will maintain overall responsibility for the fiduciary and administrative aspects of the project and will act as the public investor (equity shareholder on behalf of the Government) in the Anava Fund of Funds and InnovaTech Fund. The Government of Tunisia, through the Ministry of Communication Technologies and Digital Economy (MTCEN), will establish the Smart Capital fund management company, which will be responsible for implementing the project investments (Component 1) and ecosystem and firm-level support activities (Component 2). As shown in Figure 10, further to the Loan Agreement (LA) and Project Agreement (PA), the following agreements will be signed:

(a) The Ministry of Finance (MoF) will sign a Subsidiary Agreement with the CDC as the implementing agency.

(b) The CDC will sign a Partnership Agreement with Smart Capital for the implementation of Components 1 and 2 of the project, in accordance with the PA and the POM.

(c) Smart Capital will enter into relevant PFI Agreements, Investment Agreements, and Grant Agreements with eligible PFIs and beneficiaries for equity investments or grant financing.

Figure 10. Institutional and Implementation Arrangements



55. **A Steering Committee will be established to provide strategic guidance and oversight of the project and to ensure coordination of the project with other public entrepreneurship programs.** The members of the committee will include representatives from the CDC, MTCEN, MoF, Ministry of Development, Investment and International Cooperation (MDICI), and the Central Bank of Tunisia (CBT). The committee will be chaired by the Minister of MTCEN and will meet biannually to discuss the project, including implementation progress, achievement of project objectives, and other issues of a strategic nature.

56. **The Smart Capital fund manager will be established as a limited company under the Tunisian Company Law (*code des sociétés commerciales*).** The Articles of Association of Smart Capital will be in line with the project's LA and Tunisian law. Smart Capital, and underlying funds under management, will be licensed and subject to the supervision of the Financial Market Council (*Conseil du Marché Financier)* which supervises investment funds and fund managers in Tunisia.

57. **Anava Fund of Funds and InnovaTech Fund will have Articles of Association (*règlements intérieurs*) that reflect agreement with their subscribers (limited partners) according to the Tunisian Investment Fund Law.** The Articles of Association will mirror the CDC's obligations under the Subsidiary Agreement and Partnership Agreement with Smart Capital. It will reflect the project's investment strategy and criteria as set out in the POM and will ensure that the funds will maintain an independent IC throughout project implementation.

58. **In accordance with the Articles of Association of each fund, and in line with industry best practices, there will be a separation between the role of fund subscriber and investment manager.** As a result, the Limited Partners (LPs) of each fund will not play any role in the review, selection and/or management of the investments. In particular, the CDC, which will be the public subscriber (shareholder) of the two funds, will not intervene in the investment decisions and the management of the said investments of the two funds.

59. **Smart Capital will have a public-private Board of Directors.** The BOD will maintain oversight to ensure proper conduct of business of the company and fulfilment of its obligations and the objectives of the company. The BOD will select the General Director of Smart Capital under terms and conditions acceptable to the Bank. Each fund will have a strategic committee, comprising the respective LPs, who will approve the selection of the funds' Investment Committees based on criteria established in the POM and subject to no-objection from the World Bank.

60. **Each fund will have an independent private Investment Committee, in accordance with industry best practices and the Articles of Association of each fund.** The private ICs will be composed of experts[35] in early stage equity investments from the private sector, including from the diaspora. The General Director of Smart Capital will be a member of the ICs of both the Anava Fund of Funds and the InnovaTech Fund, but not the Chair of either IC. The IC may include up to two additional representatives of Smart Capital alongside the General Director, subject to Smart Capital representatives not making up the majority of the IC. Public officials, including employees of the CDC, may not be members of the IC. The ICs

[35] Investment committee members are not expected to be remunerated using project funds at this stage.

will make decisions on investments, follow-on financing to a company and exits as proposed by Smart Capital.[36]

61. **The project will be implemented over the period of seven years, to allow for the establishment of key implementing entities (Anava Fund of Funds and InnovaTech Fund) and for the development of a viable pipeline for future investments.** The initial phase of the project will be dedicated to ensuring Smart Capital and the two investment funds are established with the right private sector expertise and capacity to carry out project investments. During the initial phase, deal flow and ecosystem support activities will be prioritized to begin building a strong pipeline of future investments to be undertaken by the fund manager.

B. Results Monitoring and Evaluation Arrangements

62. **The CDC will have overall responsibility for the M&E of project results in accordance with the results framework in Section VII.** The CDC will have overall responsibility for developing an M&E framework, including developing an M&E methodology and implementation plan, compiling baseline data, and developing a beneficiary feedback mechanism to capture feedback from project beneficiaries on a regular basis. The M&E framework will comprise three pillars: (a) project results monitoring (in line with the results framework), (b) survey of project beneficiaries, and (c) survey of participating financial and ecosystem intermediaries (see Annex 2). The CDC will be responsible for developing semiannual and annual project progress reports to be submitted to the World Bank. Project progress reports will contain at a minimum: information on project progress against the PDO-level and intermediate results outlined in the results framework (see Section VII and Annex 2); additional information on the profile of and feedback from beneficiary startups and SMEs (see Annex 2, Sample Survey Template); and implementation challenges experienced, and lessons learned during the reporting period. Component 3 of the project provides funding to support the CDC in carrying out its M&E responsibilities.

63. **Smart Capital, as well as PFIs, will be required to collect and monitor project progress and submit reports to the CDC in line with the M&E framework.** PFIs will be required to include, as part of their proposals, the mechanisms they will adopt to monitor results related to activities financed by the project; and will also be required to submit project progress reports semiannually and annually. The CDC will be responsible for consolidating these reports as part of its reporting to the World Bank.

C. Sustainability

64. **The sustainability of the project is anchored on strong Government ownership and commitment to the project throughout preparation and implementation.** The project builds on the commitment shown by the Government to support the growth of innovative startups and SMEs through various initiatives, including the Startup Act and the planned establishment of the ‘Startup Tunisia’ Program. While the overall framework of support is fully owned and championed by the Government, implementation has been slow and there is a need to ensure that the planned interventions are implemented in an ‘entrepreneur-friendly’ manner. Nevertheless, as these initiatives have received considerable support from civil society, private sector players, and other stakeholders, it is expected that

[36] See Annex 1 and the POM for further details of the project governance arrangements.

the activities supported through the project will continue to be provided beyond the life of the project with support from private sector partners and other development partners.

65. **In addition, sustainability is also built into the project design by leveraging private sector financing and building capacity of private sector fund managers and ecosystem intermediaries.** The project seeks to demonstrate success stories from investments in innovative startups and technology-based SMEs, which will contribute to attracting new private capital to the Tunisian market. In addition, the project will seek to build the capacity of accelerators, incubators, and other BDS providers to meet the business development needs of startups and SMEs. This strengthened capacity will enable them to improve their business models, raise funding from external investors, and provide high-quality services to the ecosystem beyond the project implementation period.

IV. PROJECT APPRAISAL SUMMARY

A. Technical Analysis

(i) Implementing Agency

66. **The World Bank assessed the capacity of the CDC to perform the role of the PCU.** The CDC is an independent public financial institution established by the Government in 2011 to boost private sector investments in the economy.[37] The CDC leverages state funds to support economic development and job creation, by providing support to SMEs and investments in lagging and underserved regions. The CDC has two investment mandates: serving in the public interest, and maximizing return in the financial portfolio. In its investments, the CDC holds minority shares so as to leverage private sector capital and investment expertise. The CDC has prior experience with the World Bank, acting as the patient investor in the US$150 million MSME line of credit to banks and microfinance institutions (MFIs) under the MNA Micro, Small, and Medium Enterprise Financing Facility Project (P124341). A due diligence of the CDC's ability to act as the PCU has been undertaken by the World Bank, and its capacity was found to be satisfactory. Detailed assessments of the CDC's fiduciary and E&S safeguards capacity are outlined in Sections C and E. For this project, the CDC will be managing the loan proceeds on behalf of the GoT. The CDC will not be liable to the GoT for any loan repayments and for financial losses from equity and quasi-equity Investments. The CDC is also expected to return any profits from investments to the GoT at a later date on which the GoT and CDC will agree.

(ii) Investment Approach

67. **The investment approach to be adopted by Smart Capital has been designed in accordance with international best practices, tailored to the Tunisian context.** First, the rationale for separating two financing facilities (Anava Fund of Funds for startups and InnovaTech for SMEs) is the distinct nature of the beneficiary firms, and the different investment, financing, and nonfinancial support needs across the different phases of the business development lifecycle. In addition, this dual investment approach provides a clearer signal to private co-investors allowing them to identify where and how they can play a role in the project (i.e., as fund managers or co-investors in specific deals). Second, the investment approach undertaken provides for both indirect investment (fund of funds) and direct co-investment, to

[37] The CDC was established by Law no. 2011-85 on the creation of the CDC.

maximize the amount of private sector capital that can be mobilized for investments in innovative startups and SMEs.

68. **The indirect investment (fund of funds) approach adopted for innovative startups enables public sector investors to leverage private sector expertise in the selection and management of investments.** This is especially important where public sector capacity to manage complex, high-risk, early stage investments is limited, and where there is a need to obtain broad diversification of risk across different fund managers and underlying investments. Although the fees associated with fund of funds may be higher than that of traditional investment funds, the benefit to the Tunisian context is expected to outweigh the costs—as this model will contribute to building a cadre of fund managers with expertise in early stage investments that will be able to invest in startups beyond the life of the project.

69. **Similarly, the direct co-investment model adopted for innovative SMEs also allows the GoT to leverage private sector capital and expertise for investments in potentially sophisticated SMEs.** Given the project focus on innovative SMEs with technology orientation and high growth potential, a co-investment approach will allow private sector expertise to be leveraged for the selection of viable investments, given the relatively larger investment ticket and sophisticated profile of such innovative SMEs that will seek funding under the InnovaTech Fund.

70. **Finally, the investment approach adopted by the project enables the GoT to balance investments across various enterprise stages (seed stage, early stage, and growth stage).** This approach will allow for the diversification of risk across firms in different stages of the business development life cycle. In addition, this approach will provide a steady supply of capital across the different stages (seed, early, and growth), allowing firms to graduate from seed/VC/accelerators to larger VC/SME funds without facing significant funding shortfalls.

(iii) Climate and Disaster Risk Screening and Climate Co-Benefits

71. **A climate and disaster risk screening of the project was conducted and the overall risk to the project outcomes is found to be Moderate**. Tunisia is exposed to climate and disaster risks, including rising temperatures, reduced precipitation, rising sea levels, and increasing intensity of extreme weather events, particularly flooding and droughts. Extreme weather events (flooding and droughts) may have implications for the PFIs and subprojects, in so far as weather-related disruptions affect ICT systems required for managing project investments and activities, as well as have an impact on the day-to-day business of project beneficiaries and their ability to access project activities. At the same time, Tunisia is not particularly well-positioned to respond to potential disruptions brought about by climate-related hazards; although the CDC has recently strengthened its institutional approach to E&S risk management, and will receive additional support to strengthen its capacity to monitor, assess, and respond to climate and disaster risks to the project.

72. **The project will help develop and scale up innovative startups and SMEs that can either directly or indirectly contribute to climate change adaptation or mitigation**. Component 1 will directly support investments and growth of startups and SMEs that are developing innovative solutions to support climate risk mitigation, adaptation and sustainability (e.g., innovative startups and SMEs in clean technology, green technology, and renewable energy sectors). Owing to deal flow support activities under Component 2 and the emerging landscape of innovative startups and SMEs in Tunisia, around 20 percent

of investments under Component 1 are expected to be in startups and SMEs that will help directly reduce the impact of climate change or will commercialize solutions to enable industries to do so[38]. Component 2 will provide support to startups, SMEs and ecosystem intermediaries to create a deal flow of investable startups and SMEs in areas contributing to climate change mitigation and adaptation. Component 2 will specifically include: (i) activities providing direct incentives to ecosystem intermediaries to provide tailored support to generate a deal flow of startups and SMEs providing climate solutions; (ii) activities aiming at raising awareness of the impact of climate change on various sectors (e.g., manufacturing and limited water resource availability) and how to run the business in a climate-smart way; and (iii) capacity building and training to build resilience of project beneficiaries, including women and youth, such us training on how to prepare their businesses for climate and disaster risks, and how to build environmental sustainability, and reduce carbon footprint into their business models as needed. Under Component 3, the project will provide capacity building to PFIs (child fund managers under Anava Fund of Funds and co-investors under the InnovaTech Fund), in the context of the Environmental and Social Framework (ESF), to enable them to better screen and manage climate-related risks associated with project investments. Lastly, the overall project framework will contribute to enabling project beneficiaries to improve their economic welfare (increase business revenues and household income), enabling them to manage extreme weather events without enduring further economic hardship**.** Given that the project contributes, both directly and indirectly, to building climate resilience, the risk to the project is rated as Moderate.

(iv) Citizen Engagement

73. **The project will incorporate citizen engagement in its implementation, particularly through online platforms, social media, and a beneficiary feedback and grievance redress mechanism.** The PCU will develop a dedicated project website and social media platform that will enable ongoing engagement with civil society, potential project beneficiaries, and other stakeholders (as outlined in the Stakeholder Engagement Plan [SEP]). A beneficiary feedback mechanism will also be in place, including regular surveys of project beneficiaries, which will be used to inform and adjust the project design and implementation approach as needed during implementation. The CDC along with the World Bank will review on a regular basis, the feedback received through the beneficiary surveys as well as the grievance redress mechanism. As part of implementation support, the World Bank will provide support to the CDC on corrective actions and other changes to be made to enhance the project design and implementation in line with the feedback received.

B. Economic and Financial Analysis

74. **The project has the potential to generate positive economic benefits over the long term.** At the macroeconomic level, the creation and growth of innovative firms would contribute to increasing productivity, efficiency, and competitiveness in the economy. These combined factors will contribute to creating jobs and economic opportunities for Tunisians. The project would also contribute to generating increased government revenues through increased tax receipts, although this is likely only over the long

[38] Investments are expected to be distributed across sectors as follows: fintech - 30 percent, agribusiness - 15 percent, cleantech - 10 percent, green tech and renewable energy - 15 percent, ICT and electronics - 10 percent, education technology - 5 percent, health technology - 5 percent, and other sectors - 10 percent.

term; and to reducing the fiscal burden associated with public SME finance schemes as private sector investment in startups and SMEs grow.

75. **The project may also have a strong impact on improving productivity and sustainability of startups and SMEs.** At the micro level, through the provision of a wide array of business development support, the project will contribute to building the skills and know-how of young graduates, entrepreneurs, and startups, enabling them to better take advantage of business opportunities as well as improve the productivity and profitability of their own or others' businesses. Similarly, through a focus on innovation and technology adoption, the project will enhance the competitiveness of Tunisian startups and SMEs, contributing to their growth and sustainability. As the project will pay particular attention to the interior regions, women, and youth, it will contribute to addressing the gender and spatial disparities that exist in Tunisia.

76. **Over the medium term, indirect and direct co-investments undertaken through the project are expected to generate a return to the Government sufficient to cover the costs of managing the project.** Given the focus on more risky investments in seed and early stage innovative startups, the net return to the Government is expected to be low; while the investments in tech-SMEs may be slightly higher. The overall social returns, however, are expected to be high, as investments in the very early funding stages will contribute to strengthening the pipeline of startups, thereby improving the quality of investments at the later funding stages. Considering the design of the project and plausible assumptions on investment returns, the financial projections and analysis indicate that the project will generate proceeds that will be sufficient to cover the costs of managing the project. However, the net proceeds from investment will not be linked to the repayment of the IBRD loan.

C. Fiduciary

(i) Financial Management

77. **FM assessment.** An FM assessment was carried out in accordance with the World Bank Policy on Investment Project Financing to evaluate the adequacy of FM arrangements for project implementation. This assessment reflects the FM arrangements of the CDC, the CDC's audit reports,[39] and the FM arrangements put in place for the recently closed World Bank-funded project managed by the CDC (MNA Micro, Small, and Medium Enterprise Financing Facility [P124341]).

78. **FM risk is assessed as Substantial.** While the CDC has experience with World Bank-funded projects, the assessment identified certain risks including the partial execution of the internal audit program as highlighted in the external audit report (see Section VI for further discussion on FM risks and mitigation measures).

79. **FM arrangements**. The CDC will act as the PCU and will be responsible for the overall FM of the project. To this end, the CDC will rely on its financial directorate that will hire/dedicate a financial management specialist (FMS) to handle the FM arrangements. The POM describes the roles and responsibilities including the FM procedures, with a dedicated section to define the eligibility criteria and tracking of any situation of conflict of interest. Project activities will be annually budgeted and subject to

[39] From the Court of Account and the private external auditor.

the World Bank's no-objection. The PCU, within the CDC, will maintain a separate accounting book using their current financial information management systems. A Designated Account (DA) will be opened at the CBT for the PCU. The interim financial report (IFR) will be produced separately and submitted to the World Bank not later than 45 days after the end of the semester. The CDC's external audit arrangement will be applied to the project. The CDC's external auditor will produce a separate audit report on project activities under its responsibilities. The report will be submitted not later than six months after the end of the fiscal year.

(ii) Procurement

80. **Procurement capacity assessment.** The procurement capacity assessment is based on knowledge of the CDC's procurement experience under the previous MSME project and on the findings of the recent Court of Auditors' audit report no. 31. The procurement risk is rated Moderate. The CDC will have to procure only a limited set of activities under the project and most of the activities will be intermediated through the fund manager. While the CDC has a manual of procedures which includes procurement procedures acceptable for the procurement of goods and non-consulting services, these procedures have been assessed unsuitable for the procurement of consulting services because there is no clear methodology for assessment of technical capacity and for combining price and technical capacity under different circumstances. To mitigate the identified risk, the following measures are proposed: (a) train the PCU on procurement procedures applicable to the project including (i) procurement planning, (ii) preparing procurement documents, (iii) receiving and evaluating bids or proposals, (iv) finalizing and signing contracts, (v) monitoring the implementation, and (vi) filing and archiving documents for audit and post review; (b) update the manual of procedures to include suitable procedures for the selection of consulting services; and (c) establish clear guidelines for the prevention and management of conflict of interest.

81. **Procurement arrangements.** The World Bank Procurement Regulations for IPF Borrowers, dated July 2016, revised November 2917 and August 2018, will be followed for the procurement of goods, consulting and non-consulting services under Component 2 (Ecosystem and Firm-level Support for Innovative Startups and SMEs) and Component 3 (Project Management and Capacity Building). However, the Procurement Regulations will not apply to the procurement of goods, non-consulting services, consulting services, and eventually works financed by the World Bank loan that will be made by the CDC and the fund manager (Smart Capital) to the private sector (SMEs and startups) in the context of equity, quasi-equity financing for startups and SMEs, and post-investment support to intermediaries and partner funds under Component 1 (Equity and Quasi-Equity Financing for Innovative Startups and SMEs). The project will be implemented with the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.

82. **Procurement methods**. Given the simple nature of activities to be implemented by the CDC, the implementing agency is expected to use the following approved selection and procurement methods:

(a) **For the selection of consulting firms**: (a) Quality- and Cost-Based Selection (QCBS), (b) Selection Based on the Consultants' Qualification (CQS), and (c) Direct Selection.

(b) **For the selection of individual consultants**: (a) Open Competitive Selection of Individual

Consultants, (b) Limited Competitive Selection of Individual Consultants, and (c) Direct Selection of Individual Consultants.

(c) **For the procurement of goods and non-consulting services**: (a) Request for Quotations, and (b) commercial practices according to the institutions' procedures as set forth in the CDC manual of procedures as reviewed and found acceptable by the World Bank.

(d) **For the procurement of goods and consulting and non-consulting services under grants** made by the CDC and the fund manager to private sector, the procurement method will be commercial practices, i.e. well-established procurement arrangements used by the private sector for the procurement of goods, works, or non-consulting services. The World Bank's Core Procurement Principles (value for money, economy, integrity, fit for purpose, efficiency, transparency, and fairness) are the standard for determining the acceptability of commercial practices.

83. **Project Procurement Strategy for Development (PPSD)**. Considering the Moderate risk for procurement and the size of the contracts to be procured under the project, a short PPSD has been prepared by the CDC with World Bank support in accordance with the World Bank's Procurement Regulations. The PPSD addresses how procurement activities will support the PDO and deliver the best value for money under a risk-based approach.

84. **Procurement planning.** The project's Procurement Plan will be prepared based on the analysis in the PPSD and this is subject to the World Bank's no-objection. The initial Procurement Plan shall normally cover at least the first 18 months of the project implementation. The Procurement Plan should be updated periodically to reflect actual needs and changing circumstances. Any updates to the Procurement Plan should be submitted to the World Bank for its review and no-objection. Any changes to the Procurement Plan should be justified, as appropriate, by the borrower through a revised PPSD.

85. **Use of the Systematic Tracking of Exchanges in Procurement (STEP)**. The CDC will use STEP, which is an online system to help the World Bank and the MTCEN plan and track procurement activities under the project. STEP enables auto publication of the approved Procurement Plan, publication notices, and contract award information in the World Bank's external website, United Nations Development Business online, World Bank Finances App, and World Bank Procurement App.

D. Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

E. Environmental and Social

86. **An assessment of E&S risks under the project was undertaken in accordance with the World Bank's new ESF.** Project risk is assessed as Moderate considering the nature and magnitude of the potential E&S risks and impacts of the startups and SMEs to be financed. While the project does not intend to restrict the sectors eligible for financing, the nature and profile of prospective portfolios can be estimated based on the investment parameters developed for the project. Specifically, startups that are expected to receive financing through the project are likely to be in the technology and services sectors and may entail generally low adverse E&S impacts and risks. Similarly, SMEs are expected to be in sectors such as agribusiness, logistics, manufacturing, ICT, health, and business services, which have predominantly moderate E&S risks and impacts. Furthermore, many of the investments are expected to be classified by the FIs involved in the project as low risk or equivalent in line with risk categorization systems to be established as part of the Environmental and Social Management Systems (ESMSs) of responsible financial intermediaries (RFIs), particularly where investment sizes are small and/or with relatively short tenors/exits. The E&S screening was based on: (a) initial information collected from the CDC on their E&S risk management approach, and (b) the experience with the CDC and other FIs during the implementation of the recently closed MSME project.

87. **The CDC, as the project implementing entity, will ensure that the project is carried out in accordance with the Environmental and Social Standards and the Environmental and Social Commitment Plan.** The CDC will ensure that the measures and actions specified in the ESCP are implemented and that sufficient funds and resources are allocated for its implementation. Project funds will flow through the CDC that would establish and channel financing to the following FIs[40]: (a) the Anava Fund of Funds (with child funds as RFIs), and (b) the InnovaTech Fund (with private investors co-investing in SMEs alongside the fund). CDC will provide guidance but will not play a role in conducting financial due diligence, decision making, and monitoring portfolio risks with regard to the investments to be made by the RFIs. The RFIs will be created once the project is under implementation.

88. **Based on their mandate and business model, each of the two funds are expected to have the exposure to E&S risks and establish measures to manage them** as follows:

(a) **The fund of funds (Anava) would be indirectly exposed to E&S risks** through taking equity in child funds which would be seed and VC funds that will, in turn, make equity investments in innovative startups and SMEs. The portfolios of child funds will be directly exposed to E&S risks, along with financial risks, depending on the size, industry, and nature of business of the startups and SMEs financed. According to Environmental and Social Standard (ESS) 9, these child funds would be expected to have an institutional ESMS that would cover their entire pipeline/portfolio of investments. The child funds will also put in place, as part of their ESMSs, procedures for external communications on E&S matters proportionate to the risks and impacts of project activities, adequate grievance redress mechanisms, and Labor

[40] RFIs for this project are defined as FIs that will put in place and manage the investment decision-making process and associated due diligence of the entities with which they will have financing agreements (child funds in case of Anava Fund of Funds and actual startup and SME investments in case of the co-investment Fund (InnovaTech). Because RFIs, which will be newly established legal entities, will receive funding in the form of equity, E&S requirements will apply to the investment portfolios of these entities. E&S requirements will not apply to investment portfolios of investors in these entities that are undertaken outside the legal entities established in the context of the project.

Management Procedures (LMP). To enable the development and implementation of the ESMSs by child funds in a standardized and coordinated manner, the fund of funds would develop, and link to the POM, an institutional ESMS appropriate for a wholesale FI that will encompass a clear process, structure, and organizational capacity needed for E&S due diligence and supervision of the ESMS of child funds that it will invest in.

(b) **The co-investment fund (InnovaTech) would be directly exposed to E&S risks** in its portfolio because it will invest directly in startups and SMEs. Smart Capital will therefore develop and implement an ESMS appropriate for a retail FI that invests directly into the SMEs. This ESMS will include all necessary elements (policy, procedures, E&S categorization system for investments, capacity, commitment, reporting, and so on) needed to screen, categorize, approve, and monitor SME investments in a systematic manner. The ESMS will be integrated into the fund's overall investment process and investment staff will be trained, as needed.

89. **The CDC, which has been involved in the implementation of the recently closed MNA Micro, Small and Medium Enterprise Financing Facility (P124341, IBRD), has experience in E&S risk management in accordance with World Bank safeguards policies.** The CDC has recently developed an institutional ESMS with an environmental policy endorsed by its senior management including organizational commitments, objectives, and metrics with regard to the CDC's overall E&S risk management. The CDC has designated a staff member to support the implementation of the ESMS and established a training program for E&S issues. The ESMS includes monitoring and reporting procedures for overall E&S performance of the CDC's portfolio. The CDC has also prepared an SEP,[41] in line with ESS 10, which the CDC will be responsible for implementing, including a plan for external project-level communications on E&S matters and for managing grievance from all interested parties. The CDC has also developed Labor Management Plan (LMP) in accordance with the Tunisian Labor Code and including an internal grievance redress mechanism and occupational health and safety guidelines/procedures that can be referred to by the RFIs, once they are established, so that they can create and operationalize their own LMP. The CDC's ESMS, SEP, and LMP have been communicated internally in the CDC and disclosed through the CDC's website before project appraisal.

90. **The CDC has incorporated into the POM a clear process and structure for E&S due diligence and supervision of the RFIs under the project, including a process for adaptive management to ensure that the project can support Substantial risk subprojects.** The POM reflects clear and adequate steps and provides for capacity at the CDC level to enable E&S due diligence, oversight, monitoring, and reporting in relation to the Fund of Funds and the RFIs E&S systems and performance. The POM also includes clear parameters for assessing adequacy of the fund of funds and the RFIs' ESMS as well as an E&S reporting template for the fund of funds and the RFIs that the CDC will require them to submit annually. Additionally, the CDC POM includes a process for adaptive management incorporated into the CDC's monitoring and reporting obligations and World Bank supervision to ensure that the project can potentially support Substantial risk subprojects. For non-financing activities, the implementing agency requires in the POM that Smart Capital incorporate references to the E&S Standards terms of reference and calls of proposals to ensure that the activities and outputs are in line with these standards.

[41] For results of the initial stakeholder analysis, see II B B.1 ESS 10.

The majority of the FI subprojects are expected to be Low Risk, specifically for investments in startups and SMEs at low ticket sizes (USD200,000 – USD500,000) and/or at low tenors (1-5 years). However, may be a small number of investments at higher ticket sizes/tenors, as well as a small number FI sub-projects which could potentially have some negative environmental and social impacts, particularly in the SMEs.

V. GRIEVANCE REDRESS SERVICE

91. **Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms (as outlined in Component 3 and the POM) or the WB's Grievance Redress Service (GRS).** The GRS ensures that **complaints** received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VI. KEY RISKS

A. Summary of Risk Ratings

Risk Category	Rating
Political and Governance	Substantial
Macroeconomic	High
Sector Strategies and Policies	Substantial
Technical Design of Project	Substantial
Institutional Capacity for Implementation and Sustainability	Substantial
Environmental and Social	Moderate
Fiduciary	Substantial
Stakeholders	Substantial
Overall Risk Rating	**Substantial**

B. Explanation of Key Risks and Risk Ratings

92. **Political and governance risk is Substantial.** Despite a relatively successful transition toward democracy, the political environment in Tunisia has remained fragile, especially in the run up to the parliamentary and presidential elections in 2019. Moreover, social unrest—a result of fragile economic prospects and difficult reforms—is likely to be a risk in the short term. This context may affect the interest of private investors in Tunisia, potentially limiting the amount of private sector capital that can be mobilized for startups and SMEs. Mitigating measures to address these risks include economic reforms incorporating pro-poor measures to limit the impact of reforms on vulnerable households and the ongoing dialogue with civil society, private sector stakeholders, and development partners throughout project

preparation and implementation. A SEP will ensure that the governance and funding structures put in place are transparent and accountable; and independent private ICs will be established for the Anava and InnovaTech Funds, with investment selection criteria that ensure that the investment selection process is transparent and follows private sector practices. The project will have a dedicated website and social media accounts, to further promote transparency and awareness.

93. **Macroeconomic risk is High.** The macroeconomic environment remains fragile. Inadequate growth in Europe and globally is also expected to contribute to limited growth in exports, reduced tourism revenues, and declining foreign direct investment inflows. The weak macroeconomic environment and economic growth outlook therefore pose a threat to the growth of startups and SMEs supported through the project, as dampened consumer demand may limit opportunities to tap into new domestic and global markets. Moreover, these risks will likely also affect investor returns, potentially weakening investor appetites or interest in the project. Mitigation measures, supported by the International Monetary Fund (IMF) Extended Fund Facility (EFF) will help strengthen the macroeconomic environment. Other development partners (the EU, African Development Bank [AfDB], European Bank for Reconstruction and Development [EBRD], KfW, and AFD) are also providing technical and financial support to accelerate the implementation of structural reforms expected to boost growth and ensure macroeconomic stability.

94. **Sector strategies and policies risk is Substantial**. The Government has embarked on several initiatives to enhance access to finance and improve the enabling environment for startups and SMEs. However, some policy gaps and risks remain, which may affect the achievement of the project objectives. For instance, while the introduction of the Startup Act and its implementing decrees signals strong commitment to the sector from the Government, the process for labeling startups may slow down the implementation of project activities. To mitigate this risk, the '*college de startups*' which is responsible for awarding the 'Startup Label' has been established with representation from the private sector, and the project will not require startups to be labelled to receive financing from Anava Fund of Funds. In addition, other development partners, including GIZ, are supporting the Government to develop the online application portal, and to ensure that the process for awarding the 'Startup Label' is transparent and efficient. Furthermore, potential delays in the parliamentary approval of the draft law on private equity (PE) may contribute to uncertainty in the market, especially as the project seeks to attract PE investment for startups and SMEs. However, a new "transversal law" (*loi transversale*) approved by the Parliament in April 2019 includes some of the key provisions addressing bottlenecks for PE investment (i.e., allowing for investment in foreign currency and for compartmentalizing investments within funds). The project will also leverage other donors' technical assistance programs supporting the implementation of the Startup Act.

95. **Technical design of project risk is Substantial.** The technical design of the project incorporates financial vehicles (e.g., fund of funds) that are relatively new to Tunisia. Specific risks and related mitigation measures include the following:

- **Crowding out of private sector investment.** In general, public interventions to extend financing to startups and SMEs tend to crowd out private investors, as public funding is typically offered at below-market rates or terms to market segments that may already be served by the private sector. The project will mitigate this risk by channeling public funds to market segments that are not currently sufficiently served by the private sector and integrating in its design mechanisms that crowd in private sector investment.

- **Public involvement in investment selection and management.** International experience suggests that the public sector may not be best suited to select and manage direct and indirect investments in startups, due to operational constraints, risk aversion, and limited knowledge or experience. To this end, the project design specifies that Smart Capital will have a public-private sector Board, will be staffed by experts from the private sector, and will be supported by two independent private ICs with overall responsibility for investment decisions.

- **Low pipeline of deals.** There remains a risk that the pipeline of startups and SMEs will not be of sufficient quality and size to meet the amount of financing provided through the project. This may have an impact on the level of investments and ultimately delay project disbursements. To mitigate this risk, the design (through project financing and partnerships with other donors) incorporates specific deal flow support activities to strengthen the pipeline and enhance the quality of firms seeking investments through the project.

96. **Institutional capacity for implementation and sustainability risk is Substantial.** The institutional arrangements require relatively high level of implementation capacity and coordination across all levels—CDC, Smart Capital, and PFIs. Poor coordination and information sharing among these actors may have an impact on the effectiveness of implementation, and ultimately on the achievement of project outcomes. This risk will be mitigated by creating strong channels of communication between implementing entities, clear allocation of roles and responsibilities for each entity, and performance-based remuneration of the Smart Capital fund manager (as outlined in Annex 2 and the POM). There is also the risk that the delay in the establishment of the two funds will result in delayed project disbursement. To mitigate this risk, the project period has been set at 7 years (as noted in Section III) and support will be provided to the PCU to ensure the systems and private sector experts are in place within one year of project implementation. Furthermore, while local private sector capacity to manage investment funds exists at the later equity investment stages, there is limited fund management capacity in the very early equity investment stages (seed and early growth). This lack of capacity may have an impact on the achievement of project outcomes, given the bulk of funding is allocated to firms in the seed and early stages. However, this risk will be partly mitigated by planned donor programs (EU, KfW, and AFD) which will provide capacity building for fund managers, with a focus on building skills and expertise for investment in the seed and early funding stages.

97. **Stakeholder risk is Substantial.** The project incorporates a number of interventions to support business development and innovation at the firm level, as well as to strengthen the broader entrepreneurship and innovation ecosystem. However, there are several interventions, planned and ongoing, by various government agencies, development partners, civil society, and other stakeholders. This may result in the duplication of interventions. To mitigate this risk, the Bank has carried out a detailed mapping of existing Government, donor, and private sector initiatives. Such mapping informed project design which focuses on either filling the gaps or scaling up successful initiatives. The World Bank has also discussed the potential launch of a donors' coordination platform that will facilitate greater coordination, complementarity, and synergies across the entrepreneurship programs in Tunisia. Another risk is that the Government has indicated that it may target a first closing of EUR 100 million for the Anava Fund of Funds, and that additional funding would be mobilized from DFIs before the Fund of Funds may start its operations. This may result in delaying the implementation of the related subcomponent (equity and quasi-equity investments in startups) under the project. To mitigate this risk, the project has been

designed as a standalone intervention which would move forward to implementation should there be any significant delays in mobilizing additional financing from other DFIs for the financing of the fund of funds or if such financing does not materialize.

98. **Fiduciary risk is Substantial.** The CDC has experience implementing World Bank-funded projects. However, the potential risk that could affect FM relates to noncompliance with the eligibility criteria for the selection of project beneficiaries. Additional risks and areas for improvements for CDC were identified, including the partial execution of the internal audit program and the low rate of investments execution compared to planned budget, mainly explained by the national investment environment and the recent creation of the CDC. To mitigate the identified risks and weaknesses, the following measures have been identified:

(a) The development of a detailed POM describing the roles and responsibilities between involved departments and the FM procedures. The POM includes a section that clearly defines the eligibility criteria, and how they will be fulfilled, as well as the measure to properly track any conflict of interest situation.

(b) The extension of the scope of the terms of reference of the CDC statutory auditor to cover the project funds.

(c) The appointment/dedication of an FM consultant/staff (FMS) well conversant with the World Bank procedures for the project’s FM.

(d) The FMS of the project would receive training on the World Bank’ fiduciary procedures (i.e., procurement, FM, and disbursements).

(e) The implementation of the internal audit plan will be monitored as part of the World Bank supervision.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY: Tunisia
Tunisia Innovative Startups and SMEs Project

Project Development Objectives(s)

The Project Development Objective is to increase access to finance and support the growth of innovative startups and small and medium enterprises

Project Development Objective Indicators

Indicator Name	DLI	Baseline	Intermediate Targets							End Target
			1	2	3	4	5	6	7	
Access to finance and growth of innovative startups and SMEs										
Private capital mobilized for innovative startups and SMEs through the project (Amount(USD))		0.00	0.00	2,522,667.00	16,544,000.00	33,088,000.00	45,378,667.00	50,262,667.00	55,146,667.00	55,146,667.00
Of which: Private sector capital mobilized for innovative startups (Amount(USD))		0.00	0.00	2,522,667.00	12,056,000.00	24,112,000.00	33,410,667.00	36,798,667.00	40,186,667.00	40,186,667.00
Of which: Private sector capital mobilized for innovative SMEs (Amount(USD))		0.00	0.00	0.00	4,488,000.00	8,976,000.00	11,968,000.00	13,464,000.00	14,960,000.00	14,960,000.00
Innovative startups and SMEs receiving		0.00	0.00	20.00	84.00	168.00	220.00	250.00	280.00	280.00

Indicator Name	DLI	Baseline	Intermediate Targets							End Target
			1	2	3	4	5	6	7	
financing through the project (Number)										
Of which: Innovative startups (Number)		0.00	0.00	20.00	70.00	140.00	190.00	210.00	230.00	230.00
Of which: Innovative SMEs (Number)		0.00	0.00	0.00	14.00	28.00	30.00	40.00	50.00	50.00
Of which: Benefited from deal-flow and firm-level support provided by the project (Number)		0.00	0.00	8.00	35.00	70.00	95.00	104.00	112.00	112.00
Of which: Women-owned or led startups and SMEs (Number)		0.00	0.00	4.00	17.00	34.00	48.00	52.00	56.00	56.00
Of which: Innovative startups and SMEs located in interior regions (Number)		0.00	0.00	2.00	8.00	17.00	24.00	26.00	28.00	28.00
Increase in annual revenue of beneficiary startups and SMEs three years after receiving support through the project (Percentage)		0.00	0.00	0.00	0.00	14.00	0.00	0.00	19.00	19.00
Of which: Innovative startups (Percentage)		0.00	0.00	0.00	0.00	15.00	0.00	0.00	20.00	20.00

Indicator Name	DLI	Baseline	Intermediate Targets							End Target
			1	2	3	4	5	6	7	
Of which: Innovative SMEs (Percentage)		0.00	0.00	0.00	0.00	10.00	0.00	0.00	15.00	15.00

Intermediate Results Indicators by Components

Indicator Name	DLI	Baseline	Intermediate Targets							End Target
			1	2	3	4	5	6	7	
Equity and Quasi-Equity Financing for Innovative Start-ups and SMEs										
Financial intermediaries receiving financing through the project (Number)		0.00	0.00	1.00	3.00	7.00	10.00	11.00	12.00	12.00
Of which: Angel/VC funds (Number)		0.00	0.00	1.00	2.00	3.00	4.00	5.00	5.00	5.00
Of which: PE funds (Number)		0.00	0.00	0.00	1.00	2.00	2.00	2.00	2.00	2.00
Of which: Financial intermediaries receiving co-financing for direct investments (Number)		0.00	0.00	0.00	0.00	2.00	4.00	4.00	5.00	5.00
Ecosystem and Firm-Level Support for Innovative Startups and SMEs										
Ecosystem intermediaries receiving grants through the project (Number)		0.00	0.00	5.00	8.00	11.00	13.00	14.00	15.00	15.00

Indicator Name	DLI	Baseline	Intermediate Targets							End Target
			1	2	3	4	5	6	7	
Of which: Newly-established intermediaries (<1 year old) (Number)		0.00	0.00	2.00	3.00	4.00	5.00	5.00	5.00	5.00
Of which: Established intermediaries (>1 years old) (Number)		0.00	0.00	3.00	5.00	7.00	8.00	9.00	10.00	10.00
Innovative startups receiving concept development grants through the project (Number)		0.00	0.00	10.00	25.00	45.00	65.00	70.00	75.00	75.00
Of which: Women-owned or led startups (Number)		0.00	0.00	2.00	5.00	9.00	13.00	14.00	15.00	15.00
Of which: Located in interior regions (Number)		0.00	0.00	1.00	3.00	5.00	7.00	7.00	8.00	8.00
Innovative startups receiving investment readiness grants through the project (Number)		0.00	0.00	5.00	10.00	15.00	20.00	25.00	30.00	30.00
Of which: Women-owned or led startups (Number)		0.00	0.00	1.00	2.00	3.00	4.00	5.00	6.00	6.00
Of which: Located in interior regions (Number)		0.00	0.00	0.00	1.00	2.00	2.00	3.00	3.00	3.00
Innovative SMEs receiving technology		0.00	0.00	5.00	10.00	15.00	20.00	25.00	30.00	30.00

Indicator Name	DLI	Baseline	Intermediate Targets							End Target
			1	2	3	4	5	6	7	
adoption and investment readiness grants through the project (Number)										
Of which: Women-owned or led SMEs (Number)		0.00	0.00	0.00	1.00	2.00	4.00	5.00	6.00	6.00
Of which: Located in interior regions (Number)		0.00	0.00	0.00	0.00	1.00	2.00	3.00	3.00	3.00
Project Management and Capacity Building										
Project beneficiaries satisfied with the implementation of the project (Percentage)		0.00								75.00
Of which: Financial and ecosystem intermediaries (Percentage)		0.00	50.00	50.00	70.00	70.00	75.00	75.00	75.00	75.00
Of which: Innovative startups and SMEs (Percentage)		0.00	50.00	50.00	70.00	70.00	75.00	75.00	75.00	75.00

Monitoring & Evaluation Plan: PDO Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Private capital mobilized for innovative startups and SMEs through the project	This indicator measures the risk capital mobilized (less management fees) from private investors to finance equity and quasi-equity investments in innovative startups and SMEs directly linked to the project.	Annual	Fund management reports	Fund management reports	Fund Manager/CDC
Of which: Private sector capital mobilized for innovative startups	This indicator measures the financing mobilized (less management fees) from private investors and intermediaries to finance equity investments in innovative startups directly linked to the project.	Annual	Fund management reports	Fund management reports	Fund manager/CDC
Of which: Private sector capital mobilized for innovative SMEs	This indicator measures the risk capital mobilized from private investors to finance equity and quasi-equity investments in innovative SMEs directly linked to the project.	Annual	Fund management reports	Fund management reports	Fund manager/CDC
Innovative startups and SMEs receiving financing through the project	This indicator measures the total number of innovative startups and SMEs that receive public and private financing through the	Annual	Fund management reports	Fund management reports	Fund manager/CDC

	project.				
Of which: Innovative startups	This indicator measures the total number of innovative startups that receive public and private financing through the project.	Annual	Fund management reports	Fund management reports	Fund manager/CDC
Of which: Innovative SMEs	This indicator measures the total number of innovative SMEs that receive public and private financing through the project.	Annual	Fund management reports	Fund management reports	Fund manager/CDC
Of which: Benefited from deal-flow and firm-level support provided by the project	This indicator measures the total number of startups and SMEs that received deal flow or firm-level support and subsequently raised equity and/or quasi-equity investment through the project	Annual	Fund management reports	Fung management reports	Fund manager/CDC
Of which: Women-owned or led startups and SMEs	This indicator measures the number of women-owned or -led innovative startups and tech-SMEs that receive financing through the project.	Annual	Fund management reports	Fund management reports	Fund manager/CDC
Of which: Innovative startups and SMEs located in interior regions	This indicator measures the number of startups and SMEs based in interior regions, or with the bulk of operations in interior regions, that receive public	Annual	Fund management reports	Fund management reports	Fund manager/CDC

	and private financing through the project.				
Increase in annual revenue of beneficiary startups and SMEs three years after receiving support through the project	This indicator measures the weighted average increase in annual revenue of innovative startups and SMEs three years after receiving financial and/or non-financial support through the project	At Mid-term and End of Project	Survey/project reports	Survey/project reports	Fund manager/CDC
Of which: Innovative startups	This indicator measures the increase in annual average revenue of innovative startups three years after receiving financial and/or non-financial support through the project.	At Mid-Term and End of Project	Survey/project reports	Survey/project reports	Fund Manager/CDC
Of which: Innovative SMEs	This indicator measures the increase in annual average revenue of innovative SMEs three years after receiving financial and/or non-financial support through the project	At Mid-Term and End of Project	Survey/project reports	Survey/project reports	Fund manager/CDC

Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Financial intermediaries receiving financing through the project	This indicator measures the number of financial	Annual	Fung management	Fund management reports	Fund manager/CDC

	intermediaries that receive financing through the project for onward investment in startups and SMEs. Angel/VC fund managers will classified as those receiving funds primarily for seed and early stage investments; PE fund managers will be classified as those receiving funds for growth-stage investments; and co-investors will be classified as those receiving co-financing as part of co-investment on a deal-by-deal basis.		reports		
Of which: Angel/VC funds	This indicator measures the number of angel/VC funds receiving financing for seed and early stage investments in innovative startups	Annual	Fund management reports	Fund management reports	Fund manager/CDC
Of which: PE funds	This indicator measures the number of PE funds receiving financing for investments in growth stage innovative startups and SMEs	Annual	Fund management reports	Fund management reports	Fund manager/CDC
Of which: Financial intermediaries receiving co-financing for direct investments	This indicator measures the number of financial intermediaries that receive co-financing through the	Annual	Fund management reports	Fund management reports	Fund manager/CDC

	project for direct co-investments in innovative SMEs				
Ecosystem intermediaries receiving grants through the project	This indicator measures the number of ecosystem intermediaries that receive grants (DEAL and SAIL) through the project	Annual	Survey/project reports	Survey/project reports	Fund manager/CDC
Of which: Newly-established intermediaries (<1 year old)	This indicator measures the number of new ecosystem intermediaries that receive grants through the project	Annual	Survey/project reports	Survey/project reports	Fund manager/CDC
Of which: Established intermediaries (>1 years old)	This indicator measures the number of established intermediaries that receive grants through the project.	Annual	Survey/project reports	Survey/project reports	Fund manager/CDC
Innovative startups receiving concept development grants through the project	This indicator measures the number of SMEs receiving concept development grants (AIR) through the project	Annual	Survey/project reports	Survey/project reports	Fund manager/CDC
Of which: Women-owned or led startups	This indicator measures the number of women-owned or -led startups receiving concept development grants (AIR) through the project	Annual	Survey/project reports	Survey/project reports	Fund manager/CDC
Of which: Located in interior regions	This indicator measures the number of innovative startups located in interior regions receiving concept development grants through the project	Annual	Survey/project reports	Survey/project reports	Fund manager/CDC

Innovative startups receiving investment readiness grants through the project	This indicator measures the number of innovative startups receiving investment readiness grants (AIR2) through the project	Annual	Survey/project reports	Survey/project reports	Fund manager/CDC
Of which: Women-owned or led startups	This indicator measures the number of women-owned and led startups receiving investment readiness grants through the project	Survey/project reports		Survey/project reports	Fund manager/CDC
Of which: Located in interior regions	This indicator measures the number of innovative startups located in interior regions receiving investment readiness grants through the project	Annual	Surveys/project reports	Surveys/project reports	Fund Manager/CDC
Innovative SMEs receiving technology adoption and investment readiness grants through the project	This indicator measures the number of innovative SMEs technology adoption and investment readiness grants through the project	Annual	Surveys/project reports	Surveys/project repotrs	Fund manager/CDC
Of which: Women-owned or led SMEs	This indicator measures the number of women-owned or led SMEs receiving technology adoption and investment readiness grants through the project	Annual	Surveys/project reports	Surveys/project reports	Fund Manager/CDC
Of which: Located in interior regions	This indicator measures the number of innovative SMEs located in interior regions receiving technology adoption and investment	Annual	Surveys/project reports	Surveys/project reports	Fund manager/CDC

	readiness grants through the project				
Project beneficiaries satisfied with the implementation of the project					
Of which: Financial and ecosystem intermediaries	This indicator measures the percentage of project beneficiaries that are satisfied with the project interventions. The feedback obtained will be used to inform potential changes or adjustments to the project design and/or delivery mechanisms during the life of the project	Annual	Survey/beneficiary feedback mechanism	Survey/beneficiary feedback mechanism	Fund manager/CDC
Of which: Innovative startups and SMEs	This indicator measures the percentage of project beneficiaries that are satisfied with the project interventions. The feedback obtained will be used to inform potential changes or adjustments to the project design and/or delivery mechanisms during the life of the project	Annual	Survey/beneficiary feedback mechanism	Survey/beneficiary feedback mechanism	Fund manager/CDC

ANNEX 1: Project Governance Arrangements

COUNTRY: Tunisia
Tunisia Innovative Startups and SMEs Project

Smart Capital BOD

1. **The BOD of Smart Capital will include public and private sector representatives, including one representative from the CDC.** The BOD will include qualified members with expertise in investment, entrepreneurship, and business administration, including one senior representative of the CDC. The term of the BOD members shall be a renewable three years mandate. Membership for any member shall terminate upon the lapse of the term of the board/death/resignation/or removal from the board. The election or renewal of new/current members will follow the process required by the Tunisian Companies Law. The chair of the BOD will have an explicit responsibility to manage replacements of BOD members.

2. **The BOD will select the General Director of Smart Capital.** The Board will delegate to the General Director the responsibility for the management of investments, including all decision making related to implementation of all other activities and operations related to Component 2, and staffing.

3. **The BOD shall be responsible, among other things, for**

(a) Selecting the Director General in accordance to POM criteria;

(b) Overall supervision of the executive management activities;

(c) Appointing an internal auditor to carry out objective and independent in-house audits; and

(d) Other functions or delegations as stipulated under the Tunisian Companies Law.

4. **To be eligible as a private member of the BOD, an individual must**

(a) Possess experience in VC/investment/corporate law/accountancy, or experience in the entrepreneurial ecosystem—either as an investor, or as an entrepreneur;

(b) Have limited or no conflict of interest (see paragraph 10 on conflict of interest); and

(c) Possess strong analytical, technical, and operational experience.

Smart Capital Strategic Committees

5. **Each fund will have a Strategic Committee, comprising the funds' subscribers or Limited Partners (LPs).** Strategic committee will have the responsibility for setting the fund investment strategies based on Articles of Association and criteria established in the POM, and subject to no-objection from the World Bank. These committees will maintain strategic oversight over the funds, and ensure the fulfilment of their development objectives.

6. **Strategic committees will be responsible for among others:**

(a) Approve the investment strategy of each fund in accordance to the Articles of Association *(règlements intérieurs)* of each fund;

(b) Selecting the ICs in accordance to Articles of Association *(règlements intérieurs)* and POM criteria and no-objection from the World Bank; and

(c) Ensuring overall strategic oversight of the fund and ensuring appropriate processes are followed in the fulfilment of their development objectives.

Smart Capital Director General

7. **The Smart Capital Director General will be responsible for ensuring implementation of project investments and ecosystem and firm-level support activities as defined in the Articles of Association *(règlements intérieurs)* of the funds.** The investment strategies will be communicated to the BOD and fund subscribers (through the fund's Articles of Association) and will be aligned with the POM. The Director General will also conduct the necessary marketing, outreach, training, capacity-building, and support events and activities relevant to the success of the project. The Director General will be responsible for staffing the organizations and will be responsible for ensuring that all implementation and reporting are in accordance with the World Bank guidelines detailed in the POM. The Director General will be remunerated in accordance with industry best practices which will include a performance-linked reward structure and incentives to ensure maximum leverage from the private investors.

8. **To be eligible as a Director General, an individual must**

(a) Be from the private sector;

(b) Possess experience in VC/investment, or experience in the entrepreneurial ecosystem—either as an investor or as an entrepreneur;

(c) Have limited or no conflict of interest (see paragraph 13 on conflict of interest); and

(d) Possess strong analytical and operational experience.

Investment Committees for the Anava Fund of Funds and InnovaTech Fund

9. **The selection of investments will be the sole responsibility of the Anava Fund of Funds and InnovaTech Fund ICs.** Each of the ICs will be composed of five to seven private sector members including Smart Capital executives. The Director General of Smart Capital will be a member and secretary of the two ICs. The ICs may include two additional representatives of Smart Capital alongside the Director General, subject to Smart Capital representatives not making up the majority of the IC. Public officials/employees will not be part of the IC. The IC will make decisions on investments, follow on financing to a company, and exits proposed by the Smart Capital.

10. The Strategic Committees must ensure that the appropriate qualified IC members and selection process are put in place, and capacity is distributed to cover each partnership agreement. The Director

General will propose IC members to the Strategic Committees, each of them will approve the ICs composition in accordance with criteria in the POM, funds internal memoranda, and on a no-objection from the World Bank.

11. **To be eligible as a member of the IC of the funds, an individual must**

(e) Be from the private sector;

(f) Possess experience in VC/investment, or experience in the entrepreneurial ecosystem—either as an investor or as an entrepreneur;

(g) Have limited or no conflict of interest (see paragraph 13 on conflict of interest); and

(h) Possess strong analytical and operational experience.

12. **Tasks and Obligations of each of the ICs include:**

(a) Selection from among their members a chair who will manage their meetings and report on their decisions to the BOD;

(b) Formal approval of investment partnerships in child funds for the fund of funds and investments in SMEs for the direct co-investment fund;

(c) Analyzing investment opportunities and making investment decisions;

(d) Ensuring follow-up on investments and good execution of investment decisions made, according to the investment strategy set by the Strategic Committee; and

(e) Monitoring and reviewing performance of investments, including taking necessary corrective actions as needed.

Conflict of Interest

13. **The BOD will adopt a code of conduct and conflict of interest policies and procedures and enforce several measures to mitigate any conflict of interest that may arise.** The details of these policies and procedures as well as the mitigation measures are detailed in the POM. The ICs and BOD members and any other person present at an investment selection meeting (invitees) must declare any actual or potential conflicts of interest in any investments at the start of each meeting or, at a minimum, before discussion of the relevant agenda item or topic. All details of any conflict of interest must be documented in detail in the minutes of the relevant meeting. Before discussing the relevant agenda item or topic, the committee must determine by majority vote (excluding the meeting member with the potential conflict of interest) whether the relevant member or invitee has a real or perceived conflict of interest and whether that member or invitee shall be excused from the deliberations on the particular investment. The IC/BOD shall review all actual or potential conflicts of interest with the designated legal counsel.

Eligibility Criteria for Project Beneficiaries (start-ups and SMEs)

14. **All ventures eligible for funding through the project must have a presence in Tunisia or with operations conducted in Tunisia even if their product target market is external**. This includes companies with foreign shareholders but who include Tunisians and/or legal residents. Eligible startups or SMEs may not be engaged in any of the activities or sectors included in the negative expenditures list described in the project E&S arrangements and POM. Investments in startups will be opportunistic across all sectors, although it is expected that investments will likely be in the technology and services sectors. The project will be sector agnostic but will target approximately 280 startups and entrepreneurs harnessing innovation and new technologies in key sectors and value chains, such as bio-tech, green energy, fintech, agriculture, health, and education, among other sectors. Investments will not involve real estate construction, heavy manufacturing, or other activities that compromise safeguard to environmental and social standards.

15. **Specific eligibility criteria for startups and SMEs will be based on objective criteria (firm size, age and capital structure), with additional subjective criteria (innovation, scalability, and others) outlined in the POM.** For the purposes of the project, innovative startups will be defined as firms with less than 100 employees, less than TND 15 million in assets and annual turnover, less than eight years, and with more than two-thirds of capital to be held by other natural persons or investment companies. Innovative SMEs will be defined as firms with less than 200 employees, that have been in existence for more than two years, and that possess a technology orientation with high-growth potential. Additional eligibility criteria are further set out in the POM to provide PFIs flexibility to assess innovation, scalability, and growth potential of project beneficiaries and ensure that no firm qualifies for funding under Anava Fund of Funds and InnovaTech Fund at the same time.

Box 1.1. Startup Act: Startup Eligibility Criteria and Labeling Framework

The Startup Act and related Government Decree No. 2018-840 dated October 11, 2018 set out the criteria and procedures for granting the 'Startup Label' to eligible entities. To be eligible to receive the 'Startup Label,' firms must meet the following criteria:

Objective criteria

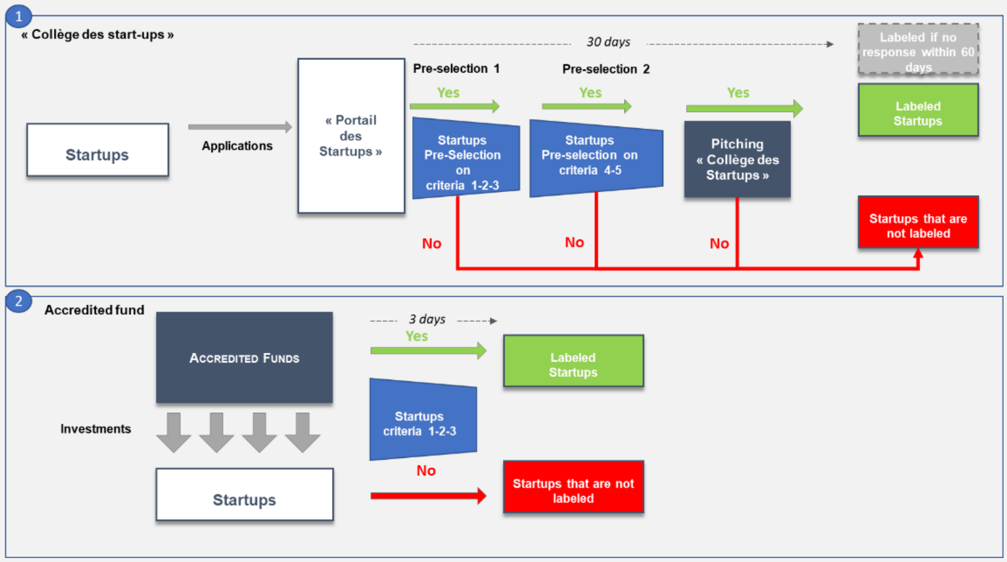
1. Its existence shall not exceed eight years after the date of incorporation.
2. The number of human resources shall not exceed 100 employees.
3. Total assets shall not exceed TND 15 million
4. The annual turnover shall not exceed TND 15 million
5. More than two-thirds of its capital is held by natural persons, VC investment companies, VC funds, seed funds, and any other collective investment agencies, and by foreign startups.

Subjective criteria

6. Its economic model presents a strong innovative, including technological, character.
7. Its activity has high-growth potential.

The act and decree also establish the Labeling Committee or *"College des Startups"* which is responsible for reviewing the applications for the Startup Label, and awarding the label upon verifying that firms meet the objective criteria (1, 2, 3, 4, and 5) and upon hearing a presentation or pitch from the applicant to verify that the firms meet the subjective criteria (6 and 7). Alternatively, firms that have already obtained equity investment from funds and that meet the objective criteria (1,2,3,4, and 5) may be awarded the Startup Label without making a presentation at the '*College de Startups'.* This process is outlined in Figure 1.1. As an indirect investment (fund of funds) approach is being followed in the project, the POM adopts an approach based on the second stream of the labeling process, which enables PFIs to establish innovation and scalability criteria of beneficiary startups.

Figure 1.1.Two Streams for Startups to Obtain the Label



ANNEX 2: Project Implementation Arrangements

COUNTRY: Tunisia
Tunisia Innovative Startups and SMEs Project

A. Financial Management

1. **Country public FM analysis.** The project's activities under the responsibility of the CDC will make wide use of the Tunisian public FM systems particularly, the procedures for budget preparation, execution, ex ante control, and monitoring by the State Controller (*Contrôleur d'Etat*) of the State-Owned Enterprises (SOEs) and ex post review controls such audits performed by Government-independent bodies. The 2016 Public Expenditure and Financial Accountability assessment concluded that the legal and administrative framework for public FM offers an adequate level of assurance regarding reliability of information, predictability and control in budget planning and execution, and a strong control environment. However, the report also identified that there is still room for improvement particularly with regard to budget comprehensiveness, transparency, and accountability. Ongoing technical assistance has been mobilized by the donors (particularly the EU, the World Bank, the IMF, and AfDB) to address the remaining shortcomings.

2. **Organizational arrangements and staffing at CDC**. The CDC's organization chart comprises a Board, a General Director, and several technical and financial directorates including an internal audit department. The CDC's staff has the capacity to adequately manage the project's funds in accordance with the World Bank's FM procedures and guidelines. Nevertheless, the Court of Auditors (*Cour des Comptes*) highlighted certain governance shortcomings in its 2018 annual report including, among others, the fact that the compliance commission is not yet operational and that the head of risk management department position is still vacant.

3. Table 2.1 summarizes the FM risks identified during assessment and the measures proposed to address them.

Table 2.1. FM Risks and Mitigating Measures

Risk Type[42]	Risk Rating	Inherent Risk (IR), Control Risk (CR) and Mitigating Measures (MM) Incorporated into Project Design
Inherent risk	**M**	
Country level	M	**IR -** The Public Expenditure and Financial Accountability diagnostic 2016 concluded that the legal and administrative framework for public FM in Tunisia is sound and offers a solid level of assurance regarding the reliability of information. Overall, the budgetary process is reliable and there is a strong control environment. Nevertheless, there are transparency and accountability failures that still need to be addressed. **MM -** The GoT has embarked, with support from the donors, on a series of public FM reforms that aim to improve transparency and accountability, including a results-based budget, accounting reform, a treasury single account, a new organic budget law, and so on.
Entity	M	**IR -** The CDC is not ruled by Decree 89-9 regulating public investment and entities but is subject to commercial regulation. The CDC has good experience with World Bank's procurement, FM, and disbursement procedures. However, while the CDC invested in an accounting and payroll software, it did not implement a comprehensive information-based system to monitor investments and project management. **MM -** The CDC will dedicate part of its experienced staff to the PCU to handle the project's activities under its responsibilities and the World Bank will train the FM staff dedicated to the project on the World Bank's FM procedures.
Project	S	**IR -** The governance of the funds (eligibility criteria for the selection of project beneficiaries) represents the project's main IR. **MM -** The POM includes a section that clearly defines the eligibility criteria, how they will be fulfilled, and the measure to properly track any conflict of interest situation.
Control risk	**M**	
Budgeting	M	**CR -** Each year, the CDC prepares an analytical budget and a general budget which involves the participation of several stakeholders (deputy CEO, executive commission, and CEO) before validation by the oversight commission. Overall, the preparation process is adequate based on the assessment and the review of the Court of Account report. **MM -** The following procedures will be applied to monitor the budget: i) The CDC will submit to the World Bank the project's annual budgets for no-objection not later than the end of January of each year ii) Project transactions will follow the CDC budget arrangements iii) The POM describes the FM procedures including the budget arrangements.

[42] The inherent FM risk is that which arises from the environment in which the project is situated. The FM control risk is the risk that the project's FM system is inadequate to ensure that project funds are used economically and efficiently and for the intended purpose. The overall FM risk is the combination of the inherent and control risks as mitigated by the client control frameworks. The residual FM risk is the overall FM risk as mitigated by the World Bank's supervision effort.

Risk Type[42]	Risk Rating	Inherent Risk (IR), Control Risk (CR) and Mitigating Measures (MM) Incorporated into Project Design
Accounting	M	**CR -** The CDC is using the national accounting standards for the private sector and an accounting software for the recording of the transactions. No material deficiencies were identified in the accounting procedures and practices. The accounting books are well maintained. **MM -** The POM includes accounting procedures that will be applied by the CDC and the project team will be reinforced with an experienced FMS conversant with donors' procedures and will use an accounting software to record the project's accounting transactions separately.
Internal Control/Internal audit	S	**CR -** The Court of Auditor's annual report (31st report) identified seven cases of conflict of interest, where the CDC invested in companies related partly to a member of the control board. The CDC internal audit procedures are in preparation and should be validated shortly by the board of CDC. The oversight commission is headed by the Minister of Finance who controls the CDC activities. However, the external auditor noted in the 2017 report that a chair in the oversight commission is still vacant. The internal audit department did not realize its program for 2017, and the CDC lacks risk mapping. **MM -** The POM describes, in detail, the internal control procedures to be applied for the project to eliminate potential conflict of interests. The project will be subject to an internal audit performed by the CDC internal audit department. The full operationalization of the internal audit will be monitored as part of the project supervision.
Flow of Funds	S	**CR -** The management of the funds of the previous project was characterized by ineligible expenditures resulting from noncompliance with eligibility criteria. **MM -** To mitigate risks related to the proper and timely flow of project funds, the following measures have been agreed upon: i) A segregated DA will be opened at the CBT for the project managed by the PCU within the CDC. ii) The CBT will make payments to the PCU after verification of the supporting documents submitted by the PCU. iii) The POM includes a dedicated section on eligibility criteria.
Financing Reporting	M	**CR -** The existence of one implementing entity with good capacities will allow for timely preparation of the project financial reporting; however, the assigned FM staff will need to be trained to get acquainted with the World Bank's FM reporting requirements and financial reports templates. **MM -** To mitigate this risk, the following actions will be put into place: i) The POM clearly defines FM reporting responsibilities, specifying which reports must be prepared, by whom, their due dates and required content. ii) Customized IFRs will be prepared in collaboration with the PCU. iii) The existing accounting software will be used.
Auditing	M	**CR -** The CDC is endowed with an adequate external audit arrangement. The audit reports are produced and submitted by June 30 of each year the latest. **MM -** The CDC's external audit arrangements will be extended to the project based on agreed TOR that will include provisions on the audit of the matching grant.

Risk Type[42]	Risk Rating	Inherent Risk (IR), Control Risk (CR) and Mitigating Measures (MM) Incorporated into Project Design
Overall FM risk	**M**	

4. **Staffing.** The CDC FM team is composed of a Chief Financial Officer, a staff member responsible for cash management, an accountant, a controller, and a financial auditor. The CDC will hire/dedicate an FMS for the PCU in charge of the FM of the project.

5. **Annual work program.** The PCU within the CDC will prepare and submit to the World Bank, a proposed annual work program and budget for the following fiscal year, giving details of (a) an implementation plan for programs and activities scheduled for the following fiscal year, and (b) the estimated cost of each such activity, along with the corresponding sources of funds.

6. **Budgeting**. The CDC will apply its budgeting procedures deemed acceptable to the World Bank. The POM describes the procedures for preparation, execution, and control of the budget applicable for the activities to be implemented.

7. **Accounting and information management system.** The CDC is using Tunisia's private sector accounting standards which are acceptable to record the project's transactions and produce the financial statements. The CDC's financial directorate will support the PCU that will be responsible to book the project's transactions under its responsibilities using the current information management systems.

8. **Internal controls and internal audit.** The POM describes the internal control procedures for the activities. The CDC will apply its internal control procedures. In the annual audit plan, the CDC's internal audit will include the review of the overall project's transactions. The project could support the strengthening of the internal audit department so that it will be better equipped to advise and provide recommendations for improvement on the management of fiduciary aspects.

9. **Funds flow.** Disbursements of the loan proceeds will be made in accordance with the Loan Handbook for World Bank Borrowers (February 2017) applicable to Investment Project Financing operations pursuant to which the World Bank financing proceeds are disbursed against incurred eligible expenditures. The World Bank will disburse proceeds from the Loan Account to the project using the advance method which entails advancing loan proceeds into a DA. The DAs will be opened at the CBT for the project. Further advances to the project's DA will be made upon reporting on the use of a prior advances. The PCU (through the CBT) will report on the use of loan proceeds advanced to the project's DA in accordance with the Disbursement and Financial Information Letter. The project's eligible expenditures will be summarized in the statements of expenditures prepared by the CBT and submitted to the World Bank along with the Withdrawal Application and records when required for processing the replenishment of the DA. The expenditures will be recorded upon receiving from the borrower semiannual unaudited IFRs which report the use of advances made to the DA for eligible project expenditures. Parts of project funds will be initially advanced to the CDC from the DA, in three installments of US$20 million, US$4 million, and US$1 million, respectively, upon meeting the triggers defined as follows:

(a) The first installment in the amount of US$20 million will be advanced to the DA upon the effective creation of the Smart Capital, the setup of the Anava Fund of Funds, and the nomination of its IC.

(b) The second installment in the amount of US$4 million will be advanced to the DA upon the creation of the InnovaTech Fund and the nomination of its IC.

(c) The third installment in the amount of US$1 million would be advanced to the DA upon effectiveness of the loan and that will be used to finance activities under Components 2 and 3.

Use of Funds

10. At the CDC level, loan allocations will be according to the following:

(a) Goods, non-consulting and consulting services, audit, and training.

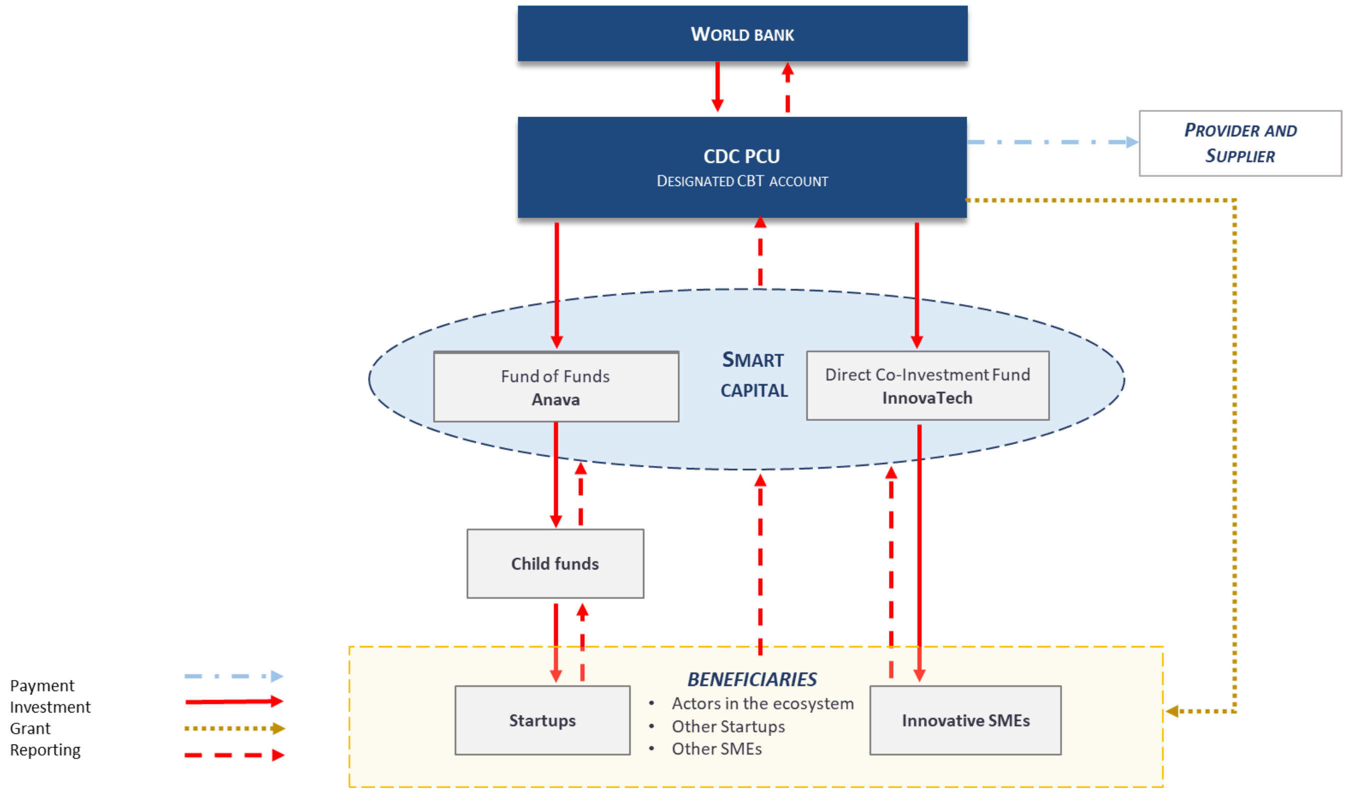
(b) Purchase of share capital in Anava Fund of Funds and InnovaTech direct co-investment Fund for the purpose of investments in final beneficiaries (startups and tech-SMEs) and management fees.

(c) Subprojects pursuant to grant agreements with startups/tech-SMEs and ecosystem providers to support startups/tech-SMEs in different forms including among other consulting services for tech-SMEs.

11. At the level of Anava Fund of Funds and InnovaTech Fund, loan allocations will cover the financing of startups/tech-SMEs in the form of equity or quasi-equity investments.

12. The retroactive financing of certain categories of expenditures made before the signature of the LA might be considered in concertation with the counterparts, if need be. If the World Bank determines that an ineligible expenditure has been financed by loan proceeds, the World Bank may require the CDC to refund the amount to the DA, or in exceptional circumstances, as provided in the World Bank disbursement policies, provide substitute documentation for eligible expenditures financed through other resources. The description of the funds flow is presented in Figure 2.1.

Figure 2.1. Funds Flow



13. **Financial reporting.** The format of the IFRs to be prepared 45 days after the end of the calendar semester and the financial statements is reflected in the POM. Each IFR will comprise at least the following: (a) the cumulative sources and uses of funds statement (project-to-date, year-to-date) and for the period, showing budgeted amounts versus actual expenditures, including a variance analysis; (b) the forecast of sources and uses of funds for the next semester; (c) the DA reconciliation statement; (d) a statements of expenditures summary; (e) statements of expenditures for Components 1 and 2; and (f) statements of expenditures for Component 3.

14. **External audit.** The CDC's external audit arrangement will be applied for project. Its external auditor, acceptable to the World Bank, will produce a separate audit report on the project's financial statements. The auditor will produce: (a) an annual audit report including an opinion on the project's annual financial statements, and (b) a management letter on internal controls system based on agreed terms of reference that will include the provisions on the audit of the grants (eligibility criteria). The project audit reports will be submitted to the World Bank within six months from the end of each fiscal year.

B. Procurement

Procurement Capacity Assessment

15. The project's procurement will be carried out by the project's implementing agency, the CDC. The CDC will have to procure only a limited set of activities under the project and most of the activities will be intermediated through the fund manager (Smart Capital). The procurement capacity assessment is based on our knowledge of the CDC's procurement experience under the previous MSME project and on the findings of the recent Court of Auditors' audit report #31. The overall procurement implementation risk is assessed as Moderate. The implementing agency (CDC) general assessment determined that established procurement of this institution follows the CDC's manual of procedures which includes procurement procedures. Nevertheless, while the procurement procedures are assessed to be acceptable for the procurement of goods, services, and works, these procedures are not suitable for contracting consulting services because there is no clear methodology for the assessment of technical capacity and combining price and technical capacity under different circumstances. To mitigate the identified risk, the following measures are proposed:

- Train the PCU on procurement procedures applicable to the project including: (a) procurement planning, (b) preparing procurement documents, (c) receiving and evaluating bids or proposals, (d) finalizing and signing contracts, (e) monitoring the implementation, and (f) filing and archiving documents for audit and post review.

- Update CDC's manual of procedures to include suitable procedures for the selection of consulting services.

- Establish clear guidelines for the prevention and management of conflict of interest.

- The CDC may appoint project implementation staff. Project implementation staff refers to individuals contracted by the CDC to support project implementation, other than individual consulting positions identified in the Loan Agreement, and may be selected by the CDC according to its personnel hiring procedures for such activities, as reviewed and found acceptable by the World Bank.

Procurement Arrangements for the Project

16. The World Bank's Procurement Regulations for IPF Borrowers will be followed for the procurement of goods, consulting, and non-consulting services whose procurement will be done under Components 2 and 3 of the project.

17. However, the Procurement Regulations will not apply to the procurement of goods, non-consulting services, consulting services, and eventually works financed by the World Bank through loans that will be made by the CDC and/or any other FIs to the private sector (SMEs and startups) in the context of the equity, quasi-equity financing for startups and SMEs and post-investment support to intermediaries and partner funds under Component 1 (Equity and Quasi-Equity Financing for Innovative Startups and SMEs).

Procurement Methods and Approaches

18. Given the simple nature of the activities to be procured by the CDC, the implementing agency is expected to use the following approved selection and procurement methods:

Selection of Consulting Firms

- QCBS
- CQS
- Direct Selection

Selection of Individual Consultants

- Open Competitive Selection of Individual Consultants (through advertisement of a request for expressions of interest [REoI]).
- Limited Competitive Selection of Individual Consultants (through the comparison of at least three curriculum vitae instead of issuing a REoI).
- Direct Selection of Individual Consultants.

Procurement of Goods and Non-consulting Services

- **Request for quotations.** Quotations should be obtained through advertisement or, when limited competition is justified, through a request for quotations to a limited number of firms. To ensure competition, the CDC should request quotations normally from not fewer than three firms.
- **CDC commercial practices** that refer to the use of well-established procurement arrangements used by the CDC for the procurement of goods or non-consulting services according to its manual of procedures.

Procurement of Goods and Non-consulting Services under Grants to be made by the CDC and the fund manager (Smart Capital) to the private sector:

- The procurement method will be commercial practices, that is, well-established procurement arrangements used by the private sector for the procurement of goods, works, or non-consulting services. The World Bank's core procurement principles (value for money, economy, integrity, fit for purpose, efficiency, transparency, and fairness) are the standard for determining the acceptability of commercial practices.

World Bank's Procurement Prior Review Thresholds

19. All World Bank-financed activities to be procured by the CDC in accordance with the World Bank's Procurement Regulations for IPF Borrowers at or above the thresholds set out below will be subject to the World Bank's procurement prior review:

- Goods and non-consulting services: US$4 million
- Consulting services: Firms: US$2 million
- Consulting services: Individuals: US$0.4 million

Use of STEP by the CDC

20. For activities where the World Bank's Procurement Regulations apply, the project will use STEP. STEP is an online system to help the World Bank and CDC plan and track procurement activities under the project. STEP enables auto publication of approved Procurement Plan, publication notices, and contract award information on the World Bank's external website, United Nations Development Business online, World Bank Finances App, and World Bank Procurement App.

PPSD and Procurement Planning

21. According to the requirement of the Procurement Regulations, a PPSD has been developed, on the basis of which the Procurement Plan and the Contract Management Plan have been prepared. The PPSD sets out the selection methods to be followed by the borrower during project implementation in the procurement of goods, works, non-consulting, and consulting services financed by the World Bank and governed by the Procurement Regulations. The borrower has also drafted a Procurement Plan. The choice of procurement methods and arrangements in the Procurement Plan has been informed by the market situation, operational context, previous experience, and associated risks in determining the optimum procurement approach that will deliver the right procurement result. The Procurement Plan will be updated at least annually to reflect the latest circumstances and or as when required. The PPSD and the Procurement Plan are part of the project documents and are contained in the project files.

Records

22. The CDC shall keep records of all proceedings of the procurement process in accordance with the requirements of the Loan Agreement.

C. Environmental and Social (including Safeguards)

Key Risks and Impacts

23. The project is classified as Moderate risk considering the nature and magnitude of the potential E&S risks and impacts of the startups and SMEs to be financed. The project will be sector agnostic but will target startups and SMEs harnessing innovation and new technologies in key sectors and value chains, such as biotechnology, green energy, fintech, agriculture, health, and education, among other sectors.

The nature and profile of prospective portfolios can be estimated based on the investment parameters developed for the project:

(a) Specifically, startups that are expected to receive financing are likely to be in technology (such as digital media, education technology, health technology, fintech, green technology and renewable energy, ICT and electronics, big data and analytics, marketplaces and e-commerce) and may entail generally low, adverse E&S impacts and risks.

(b) SMEs that are expected to receive financing may be in commercial and services sectors such as agribusiness, logistics, manufacturing, ICT, health and business services, which would be expected to have predominantly moderate E&S risks and impacts.

(c) Furthermore, many of the investments are expected to be classified by the FIs involved in the project as low risk or equivalent in line with risk categorization systems to be established as part of the RFIs' ESMS, especially where investment sizes are small (US$50,000–US$500,000) and/or with relatively short tenors/exits (one to seven years).

(d) Business activities of SMEs can potentially generate impacts—albeit relatively small—on the environment because of improper planning or low capacity for enterprise management. The extent of E&S risks in the MSME sector depends primarily on sectors, geographic context, and enterprise size. Therefore, proper mitigation measures should start with individual SMEs, as practical, given their size and commensurate with capacity to manage E&S issues.

(e) Because there may be a small number of investments with higher sizes/duration, as well as a small number of investments in industries which could potentially have some negative E&S impacts, particularly in the SME segment, the overall risk is rated Moderate.

Applicable E&S Requirements

24. Based on the above analysis of envisioned investment portfolios and commensurate with the nature and magnitude of risks and impacts, as well as the nature of the financial products (SME finance), the applicable E&S requirements will include the following and shall be included in the project Financing Agreement:

(a) Applicable E&S national and local laws and regulations of Tunisia

(b) List of excluded activities

(c) Business activities that present moderate E&S risks should be operated in a manner consistent with the ESSs 1-8 and ESS 10. This will also include the World Bank Group's Environment, Health, and Safety Guidelines. The E&S risks of business activities will not likely to be significant, will be low in magnitude, site-specific, and restricted to the footprint.

Design of ESMS and Role of RFIs

25. Project funds will flow through the CDC as the implementing agency that would establish and channel finance to FIs: (a) the Anava Fund of Funds (with child funds as RFIs), and (b) the InnovaTech Co-

Investment Fund (with project funds will flow through the CDC as the implementing agency that would establish and channel finance to FIs.[43] The CDC will provide direction but not play a significant role in conducting financial due diligence, decision making, and monitoring portfolio risks with regard the investments to be made by the RFIs. Additionally, child funds created under the fund of funds will be responsible for investment due diligence, decision making, and portfolio management for their investments. The selection of child funds would be a demand-driven process that would occur during project implementation, as such the exact number of the RFIs in the project will be determined only by the end of project implementation. The co-investment (InnovaTech) fund will be responsible for investment due diligence, decision making, and portfolio management for its investments and would therefore be an RFI under the proposed project.

26. World Bank ESS 9 paragraph 3 requires that "FIs develop and maintain, in the form of an Environmental and Social Management System (ESMS), effective environmental and social systems, procedures and capacity for assessing, managing, and monitoring risks and impacts of subprojects, as well as managing overall portfolio risk in a responsible manner." In line with good international practices, the ESMS should be as closely aligned with the FIs' process of financial due diligence, decision making, and portfolio management as possible to make it more effective.

27. The process for identification and management of E&S risks and impacts will occur at different levels of this project, from the implementing agency to the fund of funds and the RFIs, as follows:

(a) The CDC will establish a mechanism for oversight of E&S risk management for the project

(b) The fund of funds (Anava Fund of Funds) will establish and implement an ESMS appropriate for a wholesale FI investing in other FIs

(c) RFIs (child funds invested by Anava Fund of Funds and InnovaTech Fund) will establish and implement an ESMS appropriate for a retail FI investing in SME finance.

28. As a first step in the overall multilevel project system for E&S risk management, the POM prepared by the CDC is required to contain clear and adequate steps and provide for capacity at the CDC level to enable E&S due diligence, oversight, monitoring, and reporting in relation to the fund of funds and the RFIs' E&S systems and performance. The POM also includes clear parameters for assessing adequacy of the fund of funds and the RFIs' ESMS as well as an E&S reporting template for the fund of Funds and the RFIs that the CDC will require them to submit on an annual basis. All subprojects will be assessed for their E&S risks before financing by the RFIs. The screening mechanism, as part of their ESMSs, will review and categorize the subprojects based on their E&S risk and screen all Moderate and Low risk subprojects against the exclusion list and compliance with the relevant requirements of national law. Additionally, the CDC POM includes a process for adaptive management incorporated into the CDC's monitoring and reporting obligations and the World Bank supervision to ensure that the project can potentially support

[43] RFIs for this project are defined as FIs that will put in place and manage the investment decision-making process and associated due diligence of the entities with which they will have financing agreements (child funds in case of Anava Fund of Funds and SME investments in case of the co-investment fund [InnovaTech Fund]). Since RFIs, which will be newly established legal entities, will receive funding in the form of equity, E&S requirements will apply to the investment portfolios of these entities. E&S requirements will not apply to investment portfolios of investors in these entities that are undertaken outside the legal entities established in the context of the project.

Substantial risk subprojects, including those where other ESSs are relevant as needed. For Substantial or High risk FI subprojects, the procedures should either screen against investing in these firms or establish a process for notification of the implementing agency (and the World Bank) before making investment decisions to upgrade the Environmental and Social Risk Classification (ESRC) and implement adaptive management measures to ensure that relevant requirements of the ESSs can be met.

29. In the case of the fund of funds and RFIs, because they will all be established once the project is under implementation, the CDC, as the main implementing agency, will ensure that the RFIs (and the fund of funds will ensure that the child funds) prepare and implement their ESMS consistent with ESS 9. During project implementation, the CDC will be responsible for verification that the RFIs have established and implemented an ESMS. This is described under ESS 9.

30. The ESMS for each FI should be consistent with ESS 9 and should incorporate, as appropriate, key elements of the ESMS described in ESS 1 on Assessment and Management of Environmental and Social Risks and Impacts.

31. All subprojects will be assessed for their E&S risks before financing. Once the two RFIs are established, their ESMS (and in particular, E&S Policy and E&S Procedures) shall be approved by their boards, if they have one, or by their senior management and disclosed. This requirement will be part of the Environmental and Social Commitment Plan (ESCP).

32. In addition, the RFIs and the child funds will be expected to comply with ESS 2 in terms of managing their own workforce by having LMP in place, including functioning grievance redress mechanisms for the workforce.

33. The RFIs and child funds will also put in place, as part of their ESMS, procedures for external communications on E&S matters proportionate to the risks and impacts of project activities consistent with the requirements of ESS 9. Their ESMS will also include establishing and maintaining systems to respond to public enquiries and concerns and ensure they are recorded and responded to on time.

34. It is expected that other DFIs and private investors may support and contribute to the fund of funds and the co-investment fund. If that becomes the case, the ESMSs of the RFIs will be updated in line with the E&S requirements of these other investors. The ESMS update will target harmonization of various investors' E&S requirements so that RFIs E&S risk management function remains cost-efficient and their E&S requirements are clear and equitable to their investees.

Role and Responsibilities of the CDC

35. The CDC is the agency implementing the project. The CDC was involved in the implementation of part of the recently closed MNA Micro, Small and Medium Enterprise MSME Financing Facility (P124341, IBRD) which extended a US$150 million line of credit to MSMEs intermediated through financial sector institutions.

36. The CDC as the main implementing agency will cause the RFIs (the fund of funds will cause the PFIs/child funds) to prepare and implement their ESMS consistent with ESS 9. During project implementation, the CDC will be responsible for verification that the RFIs have established and

implemented ESMS. The CDC has recently strengthened its institutional approach to Environmental and Social Risk Management (ESRM)as described in the following paragraphs.

37. The CDC has recently developed an institutional ESMS with an Environmental Policy endorsed by its senior management including organizational commitments, objectives, and metrics with regard to the CDC's overall E&S risk management. This ESMS also includes E&S procedures with a screening mechanism for project categorization and monitoring of E&S risks of the CDC portfolio. The CDC has designated a staff member to support the implementation of the ESMS and has established a training program for E&S issues. The ESMS includes monitoring and reporting procedures for overall E&S performance of the CDC's portfolio. The institutional ESMS at the CDC level covers all its activities and that can be referred to by RFIs to prepare their ESMSs and assist PFIs to prepare their ESMSs, as needed.

38. The CDC has also prepared an SEP, in line with ESS 10, which the CDC will be responsible for implementing, including a plan for external project-level communications on E&S matters and for managing grievances from all interested parties.

39. The CDC has also developed LMP in accordance with the Tunisian Labor Code and including an internal grievance mechanism and occupational health and safety guidelines/procedures that can be referred to by the RFIs once they are established so that they can create and operationalize their own LMP.

40. The CDC's ESMS, SEP, and LMP have been communicated internally in the CDC and disclosed through the CDC's website.

41. Given the importance of capacity building and gradual improvement of the ESMS for all involved financial institutions, the CDC will be responsible for preparing and implementing an E&S Capacity Building Plan, including budget, and that shall be included in the ESCP. The CDC will also be responsible for consolidated E&S reporting to the World Bank.

E&S Risk Management for Non-financing Activities

42. The non-financing activities to be provided through the project include: (a) business development support to startups, including concept development, commercialization, investment readiness programs and services, and mentorship; (b) entrepreneurship ecosystem support through capacity building of incubators, accelerators, and fund managers, development of business angels, and open innovation-related activities; and (c) firm-level support for technology adoption. Anava and InnovaTech Funds will prepare requirements for non-financing activities which will incorporate relevant references to E&S standards.

D. Results Monitoring and Evaluation

43. **The CDC will have overall responsibility for project M&E in line with the framework outlined in table 2.2.** The project M&E framework will comprise three broad areas: (a) project results monitoring, (b) surveys of project beneficiaries, and (c) surveys of participating financial and ecosystem intermediaries. Specific requirements and responsibilities for M&E in these three areas are outlined in the following paragraphs:

(a) **Project results monitoring.** Project results monitoring will be conducted in line with the Results Framework (see Section VII) which outlines specific results indicators and targets to be achieved during the life of the project. Smart Capital will be responsible for collecting results relevant to Components 1 and 2, and the CDC will be responsible for collecting results relevant to Component 3, as further outlined in the POM. Smart Capital will submit progress reports to the CDC twice a year. The CDC will be responsible for consolidating these progress reports and making a consolidated submission to the World Bank on a biannual basis.

(b) **Survey of project beneficiaries.** Building on the Results Framework, this survey will gather information of additional value added of the project, such as the number of direct and indirect jobs created, the number and type of innovations developed, and the number and location of new markets accessed. The CDC will be responsible for administering the survey on an annual basis to startups and SMEs that receive financial and nonfinancial support through the project. The survey will also include a feedback mechanism to inform and improve project implementation as needed. A sample survey template, to be finalized in the initial phase of the project, is provided in table 2.2.

Table 2.2. Sample Survey Template of Beneficiary Companies in the Project

Annual Survey of Project Beneficiaries	
A. Beneficiary Profile	
Company name	
Name of owner(s)	
Gender of owner(s)	
Nationality of owner(s)	
Sector in which firm operates	
Geographic area of operation	
Does the company have a Startup Label?	
What type of support did the company obtain from the project? Please specify: • Equity and/or quasi-equity financing • Concept development grants • Investment readiness grants • Technology adoption support • Incubation (that is, office space, access to technical equipment, and so on) • Acceleration (that is, business coaching, training, technical advice, and so on) • Other nonfinancial services (please describe)	
How much equity or quasi-equity financing did the firm apply for?	
How much equity or quasi-equity financing did the firm receive?	
Did the firm receive financing from other sources not related to the project?	
If yes to the above, please specify: • Type of financing (debt, credit guarantee, grant, equity) • Source of financing (bank, family, nongovernmental organization, angel, another public program, and so on) • Timing of financing (before or after receiving financing from the project)	
Does the company produce and report annual financial statements?	
B. Innovation Practices	
Has the company applied for a patent since establishment?	
If yes to the above, please specify:	

Annual Survey of Project Beneficiaries	
• Type of patent • Local or international • What innovation the patent is for	
Do owner(s) and/or employees have any international accreditations or certificates? (please describe)	
How many owner(s) and/or employees have advanced training in Science, Technology, Engineering, or Mathematics? (please describe)	
Does the company have access to local and/or international research and industry best practices? (please describe)	
Does the company use advanced technology, for example, AI, Machine Learning, Big data, AR/VR, distributed ledger technology, and so on for business purposes? (please describe)	
Has the company introduced a new product, process or business model in the past year? (please describe)	
C. Beneficiary Performance	
Annual revenue (amount)	
Operating margin (%)	
Amount spent on research and development	
Value of exports (if any)	
Top 3 export markets	
Number of full-time employees, of which: • Women • Youth (<35 years old)	
Number of part-time employees, of which: • Women • Youth (<35 years old)	
Number of employees dedicated to research, technology or innovation and other technical roles, of which: • Women • Youth (<35 years old)	
D. Beneficiary Feedback	
Topic I. Efficiency of the submission process for financing (a) Is the submission of a proposal for funding an easy procedure? (b) Is the amount of information requested reasonable? (c) How many days does it take to fill the documentation?	
Topic II. Transparency of the selection process (a) Do you consider that the selection process is transparent, rigorous, and fair? (b) How long did it take to receive a decision after proposal submission? (c) If your proposal was rejected, what were the reasons for funding being refused? (i) Investment too risky (ii) Investor does not deal with the sector (iii) Company not investment ready (iv) Investor does not deal with the scale of the investment (v) Anticipated rate of return too low	
Topic III. Effectiveness of financing and non-financing support (a) Financing (investment and grants) (i) How much equity or quasi-equity investment did you receive from the fund? (please describe per round)	

Annual Survey of Project Beneficiaries	
(ii) Was this investment enough for the activities you wanted to finance? (iii) How much grant funding did you receive (concept development, investment readiness, technology adoption)? (b) Nonfinancial support (incubation/acceleration services) (i) What type of incubation and/or acceleration services did you receive? (iii) What is the name of the entity(s) that provided you with the incubation/acceleration services? (iii) Was this type of support useful? ▪ What have you learned? ▪ What capabilities have you developed from this support? ▪ Would you recommend these entities to other companies?	
Topic IV. Efficiency of disbursement (a) Is the process to request the funds easy to understand? (Yes/No) (b) Is the amount of information requested reasonable? (c) How many days does it take you to fill the forms? (d) Is the time between the submission of the request and result of the application reasonable? (e) Is the time between when you received the result and the disbursement of the money reasonable? (e) Did you stop any activity because the funds did not arrive on time?	
Topic V. Transparency and project reporting (a) Do you consider the decisions on financing and non-financing support to be transparent and fair? (Please explain) (b) Do you find the project reporting to be useful? (i) Is the amount of information sufficient?? (ii) Is the quality of information sufficient? (iii) Is the frequency of reporting adequate?	

(c) **Survey of participating intermediaries.** This survey will be administered to the fund managers or intermediaries managing the underlying child funds in Anava Fund of Funds, co-investors partnering with InnovaTech Fund on deal-by-deal investments in SMEs, and the ecosystem intermediaries receiving the ecosystem grants. The surveys will gather information on the adequacy of project implementation arrangements and overall project design and outcomes. The surveys will be conducted by the CDC at midterm review (Year 3) as well as the end of the project (Year 6). The specific format and questions to be included in these surveys will be discussed and finalized with the CDC and outlined in the POM.

ANNEX 3: Implementation Support Plan

COUNTRY: Tunisia
Tunisia Innovative Startups and SMEs Project

Strategic Approach for Implementation Support

1. **Given the complex nature of the project, the World Bank will provide regular and ongoing support to the project implementation partners, including the CDC and Smart Capital.** Once the project becomes effective, the World Bank team will carry out three implementation support missions per year, for the first three years of the project, to support the establishment of key project institutional arrangements and ensure coordination among the key project implementation partners (CDC and Smart Capital). The country-based co-task team leader will also conduct regular dialogue with the project partners outside official implementation support missions to ensure that project progress remains on track. A midterm review mission will be planned for the third year of the project. Following the midterm review, the World Bank may reduce the number of implementation support missions to two per year, depending on the outcome of the midterm review and implementation progress. Estimates of resources requirements for project implementation are outlined in table 3.1 and 3.2.

2. **Coordination and collaboration with development partners and donors will be a key component of the implementation support plan.** The World Bank team has developed, and will continue to develop, strong relationships with key development partners and donors in Tunisia, including KfW, GIZ, AFD, EU, and IFC) to ensure the coordination and complementarity of project activities during implementation. Meetings with these partners will be held during each implementation support mission, and the country-based co-task team leader will maintain continuous dialogue outside official missions.

3. **The project procurement and FM missions will be undertaken by fiduciary specialists as part of periodic fiduciary support conducted across all World Bank projects in Tunisia.** An exception to the principle of autonomous supervision by the fiduciary specialists would be the midterm review, implementation support missions, and ICR, where it is likely that participation of the entire World Bank project team will be required.

Table 3.1. Implementation Support Plan and Resource Requirements (for first 36 months)

Time	Activities	Expertise Needed	Resource Estimate	Partner Role
Plan and Resources				
First 12 months	Review RFP for ICs, including evaluation criteria and selection report Review investment strategy for both funds, including operational and staffing plan Review RFPs for SME investment readiness and	Project management Procurement FM E&S safeguards Legal PE/VC investment management Technology adoption and innovation Entrepreneurship	US$150,000	Coordination with KfW and AFD on review of RFP and selection of Smart Capital ICs Coordination with GIZ on review of RFP and selection of SME technology support provider

Time	Activities	Expertise Needed	Resource Estimate	Partner Role
Plan and Resources				
	technology adoption support providers, including evaluation and selection report Review RFPs for project coordination consultants and service providers	ecosystem development Gender		
12–36 months	Implementation of component activities	Project management Procurement FM E&S Safeguards PE/VC investment management Technology adoption and innovation Entrepreneurship ecosystem development Gender	US$150,000	Coordination with KfW, GIZ, AFD, and EU on investment activities Coordination with IFC on implementation of ecosystem grants to ecosystem intermediaries
Other	Potential restructuring	Project management Procurement FM E&S safeguards Legal	US$150,000	

Note: RFP = Request for Proposal.

Table 3.2. Skills Mix Required for Project Implementation

Skills Mix Required			
Skills	**Number of Staff Weeks**	**Number of Trips**	**Comments**
Task team leader	40	15	
Co- task team leader	40	0	Local staff
FCI	24	12	
Operations	24	0	
FM	12	0	Local staff
Procurement	12	0	Local staff
Safeguards	12	0	Local staff
Legal	3	2	

ANNEX 4: Gender Equality in Tunisia

COUNTRY: Tunisia
Tunisia Innovative Startups and SMEs Project

I. Gender Analysis

1. **An assessment of the gaps between women and men in Tunisia was conducted as part of project preparation to inform project design.** The country-level constraints are presented according to the pillars of the World Bank Gender Strategy 2016–2023: (a) Improving Human Capital Endowments, (b) Removing Constraints for More and Better Jobs, (c) Removing Barriers to Women's Ownership and Control of Assets, and (d) Enhancing Women's Voice and Agency and Engaging Men and Boys. These are also aligned with the Middle East and North Africa, Gender Action Plan (2018–2023).

Education

2. **Tunisia has made good strides in educational attainment.** At the primary level, girls complete school at a rate of 86 percent versus 88 percent for boys.[44] At the secondary level, women and girls are completing secondary education and enrolling in tertiary education at higher rates than men and boys, with a secondary completion rate of 78 percent for girls and 64 percent for boys. With respect to tertiary education, the enrollment rate stands at 43 percent for women and 26 percent for men. Notably, Tunisia has one of the highest rates of female graduates in ICT—among those that complete ICT programs at the tertiary level, 61 percent are women versus 39 percent men.[45] Similarly, women graduate from other kinds of STEM programs at remarkably high rates: among graduates of engineering, manufacturing, and construction programs, 45 percent are women. This share rises to 75 percent for natural sciences, mathematics, and statistics.[46] Yet, a significant share of youth is NEET. The share of female NEETs is 31 percent versus 19 percent for young men. In rural areas, these figures rise to 50 percent for young women and 33 percent for young men.[47]

Economic Opportunities

3. **Increasing women's participation in the labor market facilitates access to income-earning opportunities and enables the ownership and control of productive assets.** Yet, a variety of factors typically constrain women's employment decisions and choices, including gaps in education and skills, occupational sex segregation, mobility constraints, care and domestic responsibilities, and legal restrictions. Gender and social norms tend to influence the ways that these constraints manifest.[48] The

[44] http://datatopics.worldbank.org/gender/country/tunisia.
[45] UNESCO UIS 2017 figures. Percentage of graduates from ICT in tertiary education who are female. Corresponding rate for men: 39 percent.
[46] *http://uis.unesco.org/apps/visualisations/women-in* science/#details!region=40525&country=TUN&panel=pipeline.
[47] World Development Indicators and Tunisia, Breaking the Barriers to Youth Inclusion (World Bank Group).
[48] World Bank Group Gender Strategy.

key aspects of economic opportunities are labor force participation, financial inclusion, and entrepreneurship.

Labor Market

4. **Despite high levels of education, gaps between men and women in the labor force are especially large in Tunisia**. About 71 percent of men participate in the labor force versus only 25 percent of women. For youth ages 15–24, this rate stands at 46 percent for men and 21 percent for women.[49] A higher share of women works in services (49 percent women and 42 percent men), including sectors such as trade, hospitality, transport, finance, and insurance, among others. In sectors, such as manufacturing, construction, and public utilities, a higher proportion of men participate, with a rate of 44 percent versus 39 percent women.[50] In addition, IFC reports a gender wage gap of approximately 15 percent.[51] With respect to women who study STEM subjects, of those working in these fields in academia, 57 percent are women versus 43 percent men. In the public sector, these figures stand at 44 percent for women versus 56 percent for men, with the lowest share of women being represented in the private sector (30 percent women and 70 percent of men).[52]

5. **Women in Tunisia spend a significant amount of their time on unpaid domestic and care work.** Time spent on care and domestic responsibilities often limit the extent to which women participate in the labor market.[53] Available data from Tunisia indicate that women spend 22 percent on unpaid domestic and care work, as opposed to 3 percent for men.[54] And, while difficult to measure empirically, it is likely that a significant share of work takes places in the informal sector. The International Labor Organization (ILO) reports that drivers for the underrepresentation of women in formal employment are linked to a combination of social and gender norms that limit their autonomy and mobility; the choice to prioritize care, especially due to limited care services; and a mismatch between available employment and

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[49] World Development Indicators, 2017 figures.
[50] 14 percent of men and 12 percent of women work in agriculture. World Development Indicators. 2017 figures.
Employment in industry (percentage of total **employment) (modeled ILO estimate**): Employment is defined as persons of working age who were engaged in any activity to produce goods or provide services for pay or profit, whether at work during the reference period or not at work due to temporary absence from a job, or to working-time arrangement. The industry sector consists of mining and quarrying, manufacturing, construction, and public utilities (electricity, gas, and water).
Employment in services (percentage of total employment) (modeled ILO estimate): Employment is defined as persons of working age who were engaged in any activity to produce goods or provide services for pay or profit, whether at work during the reference period or not at work due to temporary absence from a job, or to working-time arrangement. This industry sector consists of wholesale and retail trade and restaurants and hotels; transport, storage, and communications; financing, insurance, real estate, and business services; and community, social, and personal services.
Employment in agriculture (% of total employment) (modeled ILO estimate): Employment is defined as persons of working age who were engaged in any activity to produce goods or provide services for pay or profit, whether at work during the reference period or not at work due to temporary absence from a job, or to working-time arrangement. The agriculture sector consists of activities in agriculture, hunting, forestry, and fishing.
[51]IFC (International Finance Corporation) 2017. *Banking on Women in Tunisia, Innovations in the Banking Industry Workshop Report*. https://www.ifc.org/wps/wcm/connect/cecbf498-9a66-41c4-a456-3beefb83ba54/LR_Banking+on+Women+in+Tunisia.pdf?MOD=AJPERES.
[52] http://uis.unesco.org/apps/visualisations/women-in-science/#details!region=40525&country=TUN&panel=pipeline.
[53] Haddock. Forthcoming. *Stocktaking of Experiences and Approaches for Including Childcare in Lending Operations.*
[54] World Development Indicators. 2006 figures. Domestic and care work includes food preparation; dishwashing; cleaning and upkeep of a dwelling; laundry; ironing; gardening; caring for pets; shopping; installation; servicing and repair of personal and household goods; childcare; and care of the sick, elderly, or disabled household members, among others.

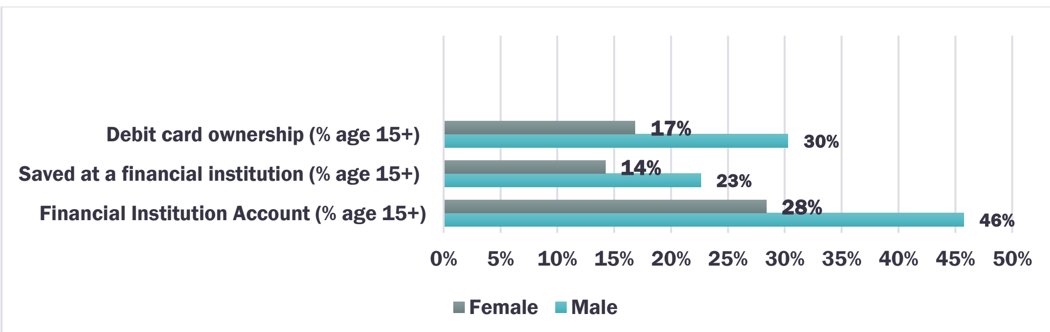
expectations.[55] An analysis of labor market entry in Tunisia showed that, all else being equal, being a woman increases the probability of formal economic inactivity. Furthermore, this effect was more pronounced for married women. [56]

Financial Inclusion

6. **Financial inclusion enables men and women to meet their financial needs; acquire productive assets, such as land, housing, and technology; save and invest in education and businesses; and adapt to shocks.** For women, it is particularly important for their economic empowerment, as it facilitates financial autonomy and privacy, providing a safe and secure place for them to keep money outside the home. Gender gaps are evident across many financial inclusion indicators in Tunisia. For example, 30 percent of men and 17 percent of women own a debit card, 23 percent of men and 14 percent of women have saved at a financial institution, and 46 percent of men and 28 percent of women have an account at a financial institution.[57]

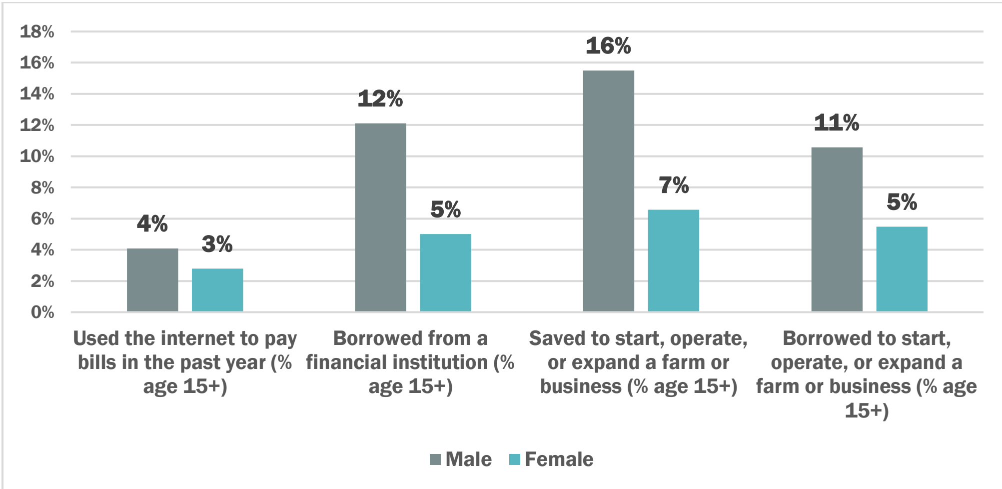
7. **While financial inclusion across other dimensions is low, gender gaps are still evident.** For instance, 12 percent of men and 5 percent of women have borrowed from a financial institution. Also, 16 percent of men and 7 percent of women have saved to start, operate, or expand a farm or business and 11 percent of men and 5 percent of women have borrowed to start, operate, or expand a farm or business (see Figures 4.1 and 4.2).

Figure 4.1. Findex 2017 Highlights by Sex (a)



[55] Mansuy and Werquin. 2015. *Labor market entry in Tunisia: The Gender Gap*. ILO and Mastercard Foundation. https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_440855.pdf
[56] Mansuy and Werquin. 2015. *Labor market entry in Tunisia: The Gender Gap*. ILO and Mastercard Foundation. https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_440855.pdf
[57] Findex 2017. http://microdata.worldbank.org/index.php/catalog/3231.

Figure 4.2. Findex 2017 Highlights by Sex (b)



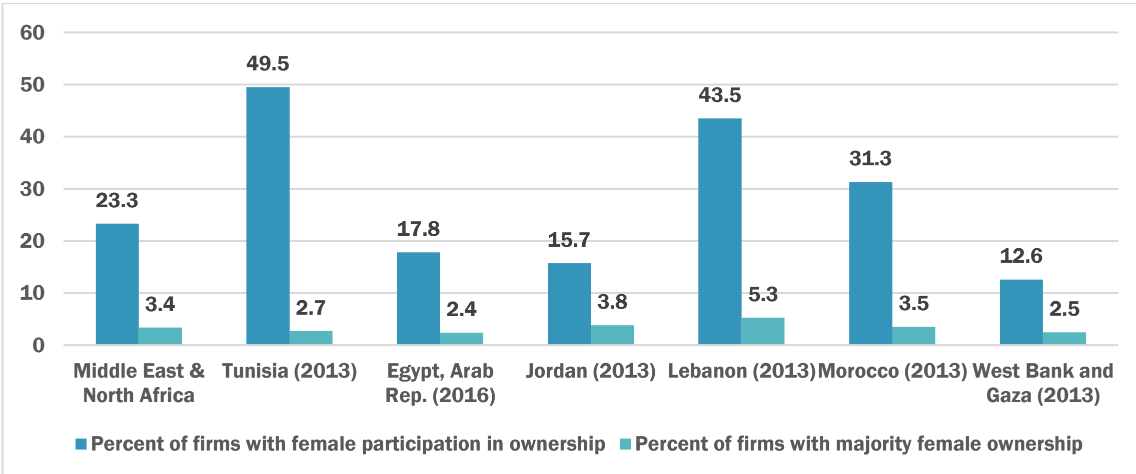
Source: World Bank Global Findex Survey (2017)

Entrepreneurship

8. **Tunisia has the highest percent of firms in the region with female participation in ownership with a rate of 50 percent.** However, the percentage of firms with majority female ownership stands at only 3 percent, calling into question the autonomy that women entrepreneurs have over their businesses.[58] The financial needs of women entrepreneurs are often unmet with IFC reporting a credit gap among formal MSMEs of approximately, US$595 million.[59] And, research from the Global Entrepreneurship Monitor finds that men are 2.4 times more likely to start a business than women. Moreover, a higher share of men think that they have the capabilities to start a business (74 percent of men versus 50 percent of women). On the other hand, a higher share of women reports a fear of failure (23 percent of women versus 16 percent of men) and more women report relying on private networks, such as family, friends, and spouses for support (61 percent of women and 45 percent of men).[60]

[58] World Bank Group Enterprise Survey. 2013 figures.
[59] IFC's Banking on Women in Tunisia, Innovations in the Banking Industry Workshop Report.
[60] GEM 2012 Tunisia Report: https://www.gemconsortium.org/report/49522.

Figure 4.3. Female Participation in Firm Ownership, World Bank Group Enterprise Survey



Voice and Agency

9. **Women in MNA face multiple constraints to voice and agency; however, Tunisia has the fewest legal restrictions in the region.**[61] Nevertheless, gender legal barriers do exist. For example, women are not permitted to be the head of the household in the same way as men. In addition, discrimination in access to credit is not prohibited based on gender or marital status. Women are also not able to work in the same industries as men.[62] Multiple gaps exist with respect to legislation that protects women from violence and sexual harassment and inequalities in inheritance are still a challenge, with important implications for women's access to productive assets, which often facilitate access to credit for entrepreneurs.

II. Gender Consultations

10. **From November 7-9, 2018, consultations were held with women-owned tech SMEs, women founders of startups, and women in STEM.** Participants represented a range of sectors, including creative advertising, IT consulting, education technology companies, design and apparel companies, as well as those focused on big data, augmented/virtual reality, and artificial intelligence, among others.

Session 1: Women-owned Tech SMEs

Key Constraints

- **Finance.** Access to finance represents a challenge for women in the SME sector, especially because existing VC financing tends to be risk averse. Limited access to finance is exacerbated by women's lack of access to productive assets, such as land and housing, which is linked to inequality in inheritance.

[61] Women, Business, and the Law, 2016 in World Bank Group MNA Regional Gender Action Plan (FY18–FY23).
[62] Restrictions on Mining and Metalworking. Women, Business, and the Law 2018, Tunisia. Code du Travail, Arts. 77–78

- **Skills and business development services.** Women entrepreneurs report gaps in skills related to FM, operations and business processes, legal, accounting, business development, and human resource management, among others.

- **Networks.** Participants raised the problem of limited networks, especially because networking often takes place in bars or clubs late in the evening. These norms limit women's participation due to time constraints linked to care and domestic responsibilities and also present risks around harassment. In addition, women entrepreneurs expressed a preference for efforts that focus on mixed networks rather than women-centric programs.

- **Mentoring and coaching.** Rather than mentors, participants expressed a preference for a business coach (or multiple) or industry expert who could respond to specific problems and propose practical solutions.

- **Role models.** The importance of raising the visibility of role models was highlighted. This could not only help shift women's mindsets and encourage more women to establish businesses, but also normalize women in business for male entrepreneurs and investors.

Proposed Solutions

- **Provide comprehensive training for women entrepreneurs in both hard and soft skills**. Suggested areas included FM, operations and business processes, legal, accounting, business development, human resource management, leadership, and negotiation.

- **Consider creating a platform of experts** with different modules who could provide support in finance, administration processes, access to international markets, and management, among other areas.

- **Provide support on e-commerce,** including access to experts and skills; insights on the most effective digital payment solutions and recommended providers; and digital marketing.

- **Catalyze and support acceleration programs that are tailored to various stages of growth and business needs**. Target and recruit women explicitly but follow a neutral and transparent selection process and deliver training to mixed cohorts.

- **Explore ways to increase the visibility of female role models** in male-dominated networks and sectors, including among investors.

Session 2: Women Founders of Startups

Key Constraints

- **Finance.** Early stage funding, like seed funding and small grants, is lacking for startups to undertake product development and testing and grow their teams.

- **Skills and business development services.** Women founders note a range of skills gaps, including leadership, communications (including digital marketing), financial (especially to develop sustainable business models), e-commerce, legal (business administration processes and contract negotiations), operations, management, leadership, public speaking, and pitching. Women founders also highlighted gaps in specific technology talent (software developers and specialists in augmented/virtual reality and animation) to support their businesses.

- **Mentoring and coaching.** Women founders noted the need for multiple and different types of mentors or consultants with specific expertise depending on the sector or type of challenge.

- **Role models.** The lack of visibility of women entrepreneurs was noted as a key challenge.

Proposed Solutions

- **Provide seed funding** to help recruit early talent and support salary costs. Also, facilitate/provide in-kind contributions (access to technology equipment, time from experts/consultants, and access to talent).

- **Support access to public markets** and facilitate strategic partnerships with the public sector to help implement and scale businesses with social impact (this could take the form of an innovation challenge).

- **Target women explicitly for training programs** but provide access to networks related to funding, mentoring, and business development services comprising both men and women. Other participants expressed preference for all-female programs.

- **Strengthen links between universities and startups** to stimulate job creation and access to talent. Also, help create partnerships with professional networks or university programs related to accounting, legal, and finance to enable access to affordable business services.

- **Facilitate access to various training opportunities** related to leadership models, management, digital marketing, pitching, and storytelling.

- **Create a peer-to-peer platform for entrepreneurs** to exchange tips on different topics (e-commerce/management/marketing and business development). Also, create a database of existing (free) resources for startups.

Session 3: Women in STEM

Key Constraints

- **Social norms.** Social and gender norms emerged as a major constraint. Due to the risky and time-consuming nature of entrepreneurship, this pathway directly conflicts with the domestic and care responsibilities. In addition, parents and spouses preferred women to stay in the safety of research labs (including pursuing these kinds of opportunities abroad) for the financial stability—entrepreneurship was seen as too risky. Participants also reported challenges around investor bias, where they felt they were not taken seriously as entrepreneurs.

- **Skills.** Pitching was repeatedly identified as an area where support was needed, especially around translating complex scientific solutions into simple and compelling narratives that investors could understand. A lack of information of the research commercialization process was also highlighted as a major constraint.

Proposed Solutions

- Raising the visibility of role models emerged as a recurrent theme.
- Help women in STEM develop skills in storytelling and pitching.
- Facilitate links between researchers and the entrepreneurship ecosystem.
- Provide support on patenting and intellectual property.
- Provide information and training on the monetization of science. Help provide access to experts who can translate ideas into business plans and financial figures.