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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

PROJECT PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

TUNISIA - SMALL FARMER SUPERVISED CREDIT

AID-DLC/P-2281

UNCLASSIFIED

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

UNCLASSIFIED

AID-DLC/P-2281

February 28, 1978

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Tunisia - Small Farmer Supervised Credit

Attached for your review are recommendations for authorization of a loan to Tunisia (the "Cooperating Country") in an amount not to exceed Seventeen Million Three Hundred Thousand United States Dollars ($17,300,000) to help in financing certain foreign exchange and local currency costs of goods and services required for the project.

This loan is scheduled for consideration by the Development Loan Staff Committee on Thursday, March 9, 1978, at 2:30 p.m., in Room 1408 New State. If you are a voting member, a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development Program
Review and Evaluation

Attachments:
- Summary and Recommendations
- Project Analyses
- Annexes A - H

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ABBREVIATIONS

BNA	Banque Nationale Agricole (National Agriculture Bank)
BNT	Banque Nationale de Tunisie (National Bank of Tunisia)
CCSPS	Coopérative Cenrale des Semences et Plantes Sélectionées (Central Cooperative for Seeds and Selected Plants)
CIMMYT	Corn and Wheat Improvement Center
CLCM	Caisse Locale du Crédit Mutuel (Local Mutural Credit Fund)
CMF du Cap Bon	Coopérative Maraichère et Fruitière du Cap Bon (Vegetable and Fruit Cooperative of Cap Bon)
CNEA	Centre National des Etudes Agricoles (National Center of Agricultural Studies)
COCEMO	Coopérative Centrale de Motoculture (Central Cooperative of Mechanized Farming)
COSAG	Coopérative des Services Agricoles de Grombalia (Agriculture Services Cooperative of Grombalia)
CRDA	Commissariat Régional du Développement Agricole (Regional Commissioner for Agriculture Development)
DPA	Direction de la Production Agricole (Division of Agriculture Production)
FOSDA	Fonds Spécial pour le Développement Agricole (Special Funds for Agriculture Development)
GOT	Government of Tunisia
OC	Office des Céréales (Office of Careals)
OEP	Office de l'Elevage et des Pâturages (Office of Livestock and Pastures)
SCM	Société de Caution Mutuelle (Mutual Guarantee Society)
SIDA	Swedish International Development Agency
SONAM	Société Nationale de Motoculture (National Society of Mechanized Farming)
UNAT	Union Nationale des Agriculteurs de Tunisie (National Farmers Union of Tunisia)

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT PAPER FACESHEET

1. TRANSACTION CODE: A (A = ADD, C = CHANGE, D = DELETE)

PP

2. DOCUMENT CODE: 3

3. COUNTRY/ENTITY: TUNISIA

4. DOCUMENT REVISION NUMBER:

5. PROJECT NUMBER (7 digits): 664-0302

6. BUREAU/OFFICE: A. SYMBOL: NE; B. CODE: 03

7. PROJECT TITLE (Maximum 40 characters): Small Farmer Supervised Credit

8. ESTIMATED FY OF PROJECT COMPLETION: FY 81

9. ESTIMATED DATE OF OBLIGATION: A. INITIAL FY 78; B. QUARTER 2; C. FINAL FY 81 (Enter 1, 2, 3, or 4)

10. ESTIMATED COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 78			LIFE OF PROJECT		
	B. FX	C. L/C	D. TOTAL	E. FX	F. L/C	G. TOTAL
AID APPROPRIATED TOTAL	514	6,000	6,514	907	17,300	18,207
(GRANT)	(514)	( )	(514)	(907)	( )	(907)
(LOAN)	( )	(6,000)	(6,000)	( )	(17,300)	(17,300)
OTHER U.S. 1.						
OTHER U.S. 2.						
HOST COUNTRY		7,000	7,000		24,000	24,000
OTHER DONOR(S)						
TOTALS	514	13,000	13,514		41,300	42,207

11. PROPOSED BUDGET APPROPRIATED FUNDS ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE		E. 1ST FY 78		H. 2ND FY 80		K. 3RD FY 81	
		C. GRANT	D. LOAN	F. GRANT	G. LOAN	I. GRANT	J. LOAN	L. GRANT	M. LOAN
(1) FN	140	070	070	514	6,000	225	6,000	168	5,300
(2)									
(3)									
(4)									
TOTALS				514	6,000	225	6,000	168	5,300

A. APPROPRIATION	N. 4TH FY ___		Q. 5TH FY ___		LIFE OF PROJECT	
	O. GRANT	P. LOAN	R. GRANT	S. LOAN	T. GRANT	U. LOAN
(1) FN						
(2)					907	17,300
(3)						
(4)						
TOTALS					907	17,300

12. IN-DEPTH EVALUATION SCHEDULED: MM 12 YY 79

13. DATA CHANGE INDICATOR. WERE CHANGES MADE IN THE PID FACESHEET DATA, BLOCKS 12, 13, 14, OR 15 OR IN PRP FACESHEET DATA, BLOCK 12? IF YES, ATTACH CHANGED PID FACESHEET.

1 (1 = NO, 2 = YES)

14. ORIGINATING OFFICE CLEARANCE

SIGNATURE

TITLE

DATE SIGNED: MM | DD | YY

15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM | DD | YY

AID 1330-4 (3-76)

I. SUMMARY AND RECOMMENDATIONS

A. Face Sheet Data (See PP Facesheet)

B. Recommendations

Approval is requested for the following authorizations and actions:

Grant	$ 907,000
Loan	$17,300,000
(Terms: 20 years, 10 year grace. 2% during grace and 3% thereafter)	
Total New AID Obligation	$18,207,000
TOTAL	$18,207,000

C. Description of Project

(1) The proposed project will establish a revolving seasonal credit fund for procurement of inputs on an 8 to 12 month basis for crop and animal production, and a medium-term credit fund for procurement of improved livestock. All inputs, where possible, will be in-kind. Credit for construction of livestock facilities will be provided by the GOT (Government of Tunisia) under existing, or expansion of existing medium-term FOSDA (Special Funds for Agriculture Development) programs. As with all other elements of this project, assistance in securing FOSDA credit will be furnished by the technical staff. Custom services (either mechanical or animal traction, and from public or private sources) will be available under the revolving seasonal credit fund in the form of cash or coupons. Supervisory services and technical assistance at the farm level will be furnished by field agents (Agents Vulgarisateurs) of the Agricultural Service Offices in each Province.

(2) The project will be implemented through the DPA (Division of Agriculture Production), Ministry of Agriculture, and coordinated at the field or provincial level by existing and additional CRDA (Regional Commissioner for Agriculture Development) technical and administrative staff. In-kind inputs will be supplied by OC (Office of Cereals), OEP (Office of Livestock and Pastures), CCSPS (Central Cooperative for Seeds and Selected Plans), COSAG (Agriculture Services Cooperative of Grombalia), and the CMF du Cap Bon (Vegetable and Fruit Cooperative of Cap Bon). Custom services will be obtained either from private or public sources at borrower's option, dependent upon timely availability.

Materials for construction of livestock facilities will be purchased from local supply sources. Overall supervision of credit will be managed by the BNT (National Bank of Tunisia) through a special account. However, actual field management of credit operations will be conducted by local credit committees. Each committee will consist of provincial representatives of the Ministries of Agriculture and Finance, BNT, UNAT (National Farmers Union of Tunisia), SCM (Mutual Guarantee Society), and other participating agencies, i.e., OC, OEP, COSAG and SONAM (National Society of Mechanized Farming). Participating farmers will be organized under existing or newly created SCM's to provide a guarantee for the repayment of loans (tentatively agreed to at an interest rate of at least 6%), or guarantees will be in the form of collateral security on harvests - which will be insured against fire and hailstone risks. Guarantees will be in the form of either of the above, or a combination of the two.

(3) The project will combine selected materials and services and close supervision and technical guidance for delivery to cooperating farmers of 50 hectares and below. For farms in the 40-50 ha. range, only those not otherwise eligible for credit from other sources will be allowed to participate in this program

Technical and supervisory agents will assist each participating farmer in the development of individually tailored farm production plans. These plans will propose a mix of food crops, forage crops, and animal and dairy production compatible with the size of the farm and quality of the soils, usual climatic and rainfall conditions, characteristics of the intended crops, type and availability of cultivation services, and the capability of the farm operator. Initial interviews will determine and quantify the present level of on-farm investment, production, and labor availability from which future changes can be measured. The plans will then be submitted to the local credit committees for review and approval. Upon approval, a line of seasonal credit in-kind for the cooperating farmer will be established through the BNT - with which production inputs as reflected in the agreed production plan can be purchased. These inputs will include selected seeds for cereals, legumes, and forages; fertilizers; herbicides* and pesticides; animal or mechanized custom services (either public or private); and animal feed concentrates. As mentioned earlier, credit for livestock purchases (improved local breed heifers and barbarine

*The loan fund will not be used for the importation of pesticides. Cooperating farmers will receive credit in-kind for the use of herbicides and some pesticides purchased by the GOT and which are available on the domestic market. In accordance with AID policy as outlined in the "Environmental Impact Statement" of May 13, 1977 and in confirmation with STATE cable 002612, dated 6 January 1976, an Initial Environment Examination is attached as Annex B.

ewes) will also be available through this project. This element had not previously (PID stage) been identified for U.S. funding. However, the GOT has now requested U.S. financing of this integral portion of the Project Proposal (See Section III, Project Analyses, Paragraph A. 4). Credit for construction of livestock shelters, a major GOT contribution, will be available through existing, or expansion of existing complementary GOT projects and programs. These inputs will be combined with supervisory technical assistance at the farm operation level so as to optimize the various activities and practices associated with cultivation of different crops and raising of livestock. The technical/supervisory personnel who will be responsible for assisting the farmer in developing the farm production plan, and the plan itself, are crucial to the concept and probably success of the supervised credit scheme.

Upon maximization of expected output, which could be obtainable the second year for continuing cooperating farmers, wheat yields should increase between 7 and 8 quintals per hectare in medium semi-arid areas, and 15 to 17 quintals per hectare in humid areas. These two areas represent the extremes. Within the two, wheat yields would increase between 8 and 12 quintals per hectare for superior semi-arid areas and between 10 and 15 quintals per hectare in the sub-humid areas.

(4) With optimization of all project elements and activities, some 11,665* farm units will be receiving credit for improved physical inputs and services, and provided regular supervisory technical assistance. The combination of improved production practices, inputs, and changes in land use where practical, will, if optimum conditions are obtained, produce yearly an additional 55,000 MT of wheat, 11,800 MT of barley, 5,800 MT of forage, 2,400 MT of meat, and 3,400 MT of milk. This output represents a 100% increase in production in the project area. It is estimated that farm incomes could rise up to 355% in the humid areas.

D. Summary Findings

(1) This project is technically sound in the quantity and types of inputs to be provided. Implementation arrangements have been developed to the extent feasible and will be further developed prior to project start-up. All inputs should be available as programmed. The proposed budget and financial plan is adequate and sufficient to furnish expected outputs. The beneficiary target group has been clearly identified, and on the basis of both social and economic analysis, the project should produce intended benefits as planned. (See Annex C "Logical Framework Matrix").

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*This includes an estimated 3,585 farm units in the 0-5 category. The exact figure in this category will be established following the first 12 month evaluation.

(2) Implementation and evaluation plans have been devised and are further described in Part 4, Implementation Planning. The Project meets all applicable statutory criteria. (See Annex D Statutory check-list.)

E. Project Issues

Major issues raised in prior review of this project are attached as Annex G. Clarification of these and other issues are addressed in Part 3, Project Analyses, and in Part 4, Implementation Planning.

II. PROJECT BACKGROUND AND DETAILED DESCRIPTION

A. Background

1. The Fifth Development Plan (1977-81) of the GOT which was recently issued establishes directives for the agriculture sector as follows:

(a) Increase production in agriculture as a basis for improving the level of independence in basic food supplies - cereals and animal products.

(b) Maintain a steady growth in the agriculture sector through more intensive utilization of resources consistent with safeguards against resources degradation.

(c) Increase total employment, especially in irrigated agriculture and fisheries while increasing the level of employment (reducing under-employment) in other subsectors.

Continued emphasis on investment in directly productive enterprise as opposed to infrastructure investment is indicated, although in terms of financial requirements very heavy inputs in water development continue to stand out. Special emphasis is placed on private investment. Overall, 25% of total investment in agriculture is projected in the private sector. The objective of increasing income of the lower population percentiles remains an important objective of the Fifth Plan.

The new plan noted in particular the limited resources, both human and material, which have been applied for promotional, extension and support service programs for the small and medium-size farms. These objectives are in effect a continuation of those set forth for the fourth plan and are consistent with the DAP presentation of January 1975.

The goal of the Small Farmers Supervised Credit Project is consistent with the overall planned sector goal: To increase production and improve the level of living of the rural population. The project purpose is to provide access to the agricultural production inputs and information necessary to increase the level of production technology employed by a significantly larger number of small and medium-size farmers than at present, and to increase basic foods production in the five Northern Governorates.

Small farmers - farming less than 50 hectares - produce over half of all cereal grains produced in the five Northern Governorates, and over 70% of all livestock in this region are held by this group. Access by this group to short-term credit has been limited by lack of clear land titles for guaranteeing the traditional credit provided by the BNT, farm size limitation for BNT credit (available only for farmers with 40 hectares or more), minimum size (500 D) loan limitations, administrative limitations and processing complexities of the BNT lending operations.

2. Access to several other credit programs is also limited. The program of the CLCM (Local Mutual Credit Fund) which was started in 1965 specifically for assisting small farmers is currently in serious difficulty, stemming from limited lending capital and poor repayment, and is largely ineffective in terms of serving the needs of the small farmer.

Thus, there is a need for a credit program for the smaller farmers if they are to participate in technological changes which earlier research under the USAID-Ford Foundation-CIMMYT Cereals Improvement Project, and the USAID Livestock-Forage Production Project has made possible. At the same time there is a need for a more intensified program of information and extension for the small farmers in the application of improved technology. Greater access to production inputs must also be provided.

Successful implementation of the Project will require a high degree of a) inter-organizational coordination among cooperating agencies and b) responsiveness by these agencies to the particular needs of a new (small farmer) clientele. These organizational reforms cannot be taken for granted; bringing them about must be viewed as an integral part of the Project itself. The cooperating agencies were established during the colonial period to service the large commercial farms. Since Independence, they have primarily continued to service this privileged clientele. The Project will function as a spokesman on behalf of its small farmer clientele vis-a-vis these agencies. Also it will orient the Accelerated Cereals and Livestock Projects to address the small farmer as the potential adopter of technical innovations. To the extent that organizational reforms are achieved, small farmers who are not participating in the project also will benefit.

The proposed project is designed to be at once responsive to the needs of the small farmers in terms of credit, technical support, and access to production inputs through a program of supervised credit. In terms of the GOT Fifth Plan objectives, this project will contribute directly to the highest priority objective of increasing production of basic foods, provide for more intensive use of some of the best land resources of the country (situated for the most part in the better climatic zones) and will reach some of the poorest elements of the population. Moreover it undertakes to correct the deficiency noted in the plan document of insufficient investment of resources in assisting the small-medium-size farms.

B. Detailed Description

This project seeks to combine access to (a) improved production inputs and (b) intensified technical services and, as a result of this combination, increase the number of small and medium-size farmers employing higher levels of production technologies. Proper employment of this technology should raise the production of basic agricultural foods and improve the income levels of participating farmers.

1. Farmers applying for and receiving in-kind credits through this project would legally agree to a farm production plan developed jointly by the farmer and the project technical advisor. The plan and loan application would then be submitted to the local credit committee for review, and upon approval, accepted by the BNT in lieu of other bankable security. The production plan, which would vary in terms of input mixture from farm to farm, would incorporate technical improvements such as use of improved and/or treated seeds, fertilizer, herbicides and pesticides, proper land preparation, cultivation practices, production and utilization of animal feeds, animal husbandry, farm management, etc. The farmer, with supervision and technical assistance provided through the area CRDA, would be responsible for the intended application of inputs. In-kind inputs would be available from public and private sources. (For example, seeds and fertilizers from the OC, traction services from SONAM or private and commercial operators, or construction supplies from private enterprises.) Cooperating farmers would draw upon a complementary DPA program to obtain credit for construction of livestock facilities. Recommendations for the livestock element would also have been included in the farm plan.

2. Some 11,665 farm units will be covered over the four year period; incorporated at the rate of 15%, 30%, 60%, and 100% inclusion at the end of four years. Some 20,000 MT of seeds, 75,000 MT of fertilizers, 15,000 MT of animal feeds, and 2.7 million hours of custom services will have to be mobilized - as well as 7,500 improved local heifers and 25,700 Barbarine ewes, in addition to a loan fund for the construction of livestock

shelters.* This element is of relatively less importance as many farms have rudimentary livestock facilities, and new construction will consist mainly of improvements and addition to existing shelters. 125 personnel (6 Engineers, 83 field agents, 16 administrative/clerical staff, and 20 drivers) will be phased in at a rate sufficient to meet the needs of farmers coming into the program. Six equipped field offices and a central office, 31 vehicles, and an adequate operational budget (see part III, Project Analyses, Section B, Financial Analysis and Plan) will also be made available.

3. The elements listed above will be combined to produce a more rational and efficient land use and production strategy. Additional output as a result of project activities assuming 100% participation would be primarily 55,000 MT of wheat, 11,800 MT of barley, 5,800 MT of forage, 2,400 MT of meat, and 3,400 MT of milk.** While varying among bio-climatic zones and size of farms, average added value would amount to some 71 TD per hectare.

III. PROJECT ANALYSES

A. Technical Analysis

1. Marketing of Output

The Project does not provide for assistance to participating farmers in the marketing of their outputs. Tunisia is currently importing cereals, meat, and milk. Northern Tunisia has an efficient marketing system for livestock and cereals. The existing marketing system can be expected to absorb the incremental output resulting from the Project without difficulty. This hypothesis is advanced despite the fact that an FAO/SIDA-assisted cattle production project currently is operating in northern Tunisia on the assumption that the marketing system is the binding constraint on increased livestock production. The Project will have to be monitored in light of the contentions about defects in the marketing system of FAO/SIDA project designers. If livestock marketing proves to be an obstacle, the Project will have to take corrective measures. These could include either assisting farmers directly with their marketing problems, or co-ordinating activities with the FAO/SIDA project.

2. Demand for Labor

Farm budget costs do not include labor, as most labor is provided by family members and because the project is designed so as to maintain

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*Not including quantities required by the addition of the 0 to 5 hectare category.

**Not including the additional production from the 0-5 ha category of farmers.

the same manpower ratios. Increased use of labor for livestock production will be off-set by decreased use of labor for cereal production. It is intended that greater use of mechanization will free labor for animal husbandry, weeding and forage production.

To the extent that farmers substitute mechanization for animal traction and intensify livestock, and forage production, labor displacements or shifts in labor use will occur. However, for those farmers continuing to use animal traction as well as intensifying production activities requiring labor use, the demand for labor will show a net increase. The demand will be met by more fully employed family labor and through local labor supply markets. The opportunity cost of labor is undoubtedly not zero, but it is low. In many areas of Northern Tunisia, unskilled farm labor is available at less than the minimum legal wage rate of 1.2 TD per day. The productivity of labor using intensified inputs for livestock production, except around Tunis, is greater than both the opportunity cost of household labor and the prevailing wage rate. The labor to carry out intensified production activities should thus be forthcoming. On the other hand, the increased implicit and cash labor costs will probably not be great enough to detract from the project's attractiveness to smaller farm operators. To the extent that hired labor is used, benefits from the project will be passed on to landless workers who constitute an element of the poorest segment of the rural populace in Northern Tunisia.

3. The project will not control its own fleet of machinery through SONAM (formerly COCEMO-COREMO), the state tractor station agency. There is an active custom machinery services market in northern Tunisia as the result of private enterprise. This market can be relied upon to provide custom plowing and harvesting services to project participants in most localities.

It has been estimated that the existing Tunisian tractor fleet is being used at only 65% of capacity. 53% of the total Tunisian tractor fleet (11,900 in 1975) is owned by farmers having less than 100 hectares of their own land. They have the capacity to perform custom services for neighboring farms after they have finished their own work. During the 1975-76 crop year, 88% of the farmers in northern Tunisia using tractors rented them from custom services operators. Only 7,820 of the 63,650 farmers using tractors had their own. Most project participants will probably come from the group of farmers who are already renting custom machinery services. For instance, it is estimated that even those with only 5 to 10 hectares presently use from 26-42 hours of machinery services annually.

The cost of custom machinery services from private operators has been no more and frequently has been less, than services purchased from the state tractor stations. Furthermore, custom services from private operators are generally available on a more timely basis than from the state tractor stations because the privately-owned tractors are more widely dispersed throughout the country-side. This facilitates communications between the farmer and the custom services operator, and it reduces travel costs for the equipment. Also, private custom service operators are often willing to perform custom services on a credit basis. Finally, the purchase by project participants of custom services from private operators will enhance the acceptability of the project at the local level. It will mean that a public agency will not displace private, local entrepreneurs as the result of the project.

4. The project seeks to extend an existing Tunisia-tested technology to a larger number of small and medium-sized farmers. The effectiveness of the proposed technology has been demonstrated through use over several years on thousands of hectares.

Improved production of cereals, employing selected seeds; fertilizers; herbicides; and appropriate tillage has been clearly demonstrated. Likewise, the benefits of producing forage as a substitute for fallow where possible, and the value of feeding livestock as opposed to scavenging has also been widely demonstrated and is being accepted. Thus, the technical basis and innovations for which credit is to be provided are well established.

Present livestock productivity is very low for cattle (115 kilograms of meat and 100 liters of recoverable milk per year), while average yields of wheat are 10 quintals per hectare in the humid and sub-humid areas, and 7 to 10 quintals per hectare in the two semi-arid zones.

Implementation of the project should increase average meat and milk production up to 150 kilograms and 175 liters, respectively per year. These increases would be obtained through the use of improved breeds, a feeding program utilizing quality forage produced on-farm and supplemented by feed concentrates purchased through the revolving seasonal credit fund, and improved husbandry practices, i.e., proper care and maintenance, good sanitary conditions, adequate shelter, and balanced rations. This type of stock farming will produce a healthier animal-giving more milk and producing more beef - over a shorter time-span. Livestock would be sold earlier (9 to 10 months for cattle and 4 to 5 months for lambs) and at a heavier weight than marketed previously. It is estimated that the proportion of additional value derived from animal production could be up to 50% in the humid area and up to 39% in the arid areas (see following tables, this section).

The crop and livestock production program are based on a more rational and efficient land use and production strategy. The Farm Production Plan, which would vary from farm to farm, combines the use of improved inputs and proper management to increase total farm production. Land use will be divided between cereals, forage, and food legumes. In most cases, land devoted to cereal production will remain the same or decrease. However, productivity increases will result in higher cereal output. The rise in productivity will be obtained from the use of selected seeds; proper seedbed preparation; use of herbicides and pesticides when alternative protection activities are deemed insufficient; fertilizer application; proper tillage; and employment of machine or animal powered traction for planting, harvesting, spraying, and other application on a timely basis. Wheat yields are expected to rise to 25 quintals per hectare in the humid and sub-humid areas, and up to 20 and 15 quintals per hectare in the two arid zones. Similar yeild increases are envisioned for barley and forage crops. The following tables illustrate the present outputs and the future potential resulting from this project.

TECHNICAL PARAMETERS - PRESENT SITUATION

Stages	Humid and Sub-Humid Stages										Upper & Medium Semi-Arid Stages	
	Wheat	Barley	Fescue	Ray Grass	Sulla	Bersim Clover	Vetch Oats	Annual Alfalfa	Chick Peas	Beans	Wheat	Vetch Oats
Seeds (kg/ha)	100	100	-	15-20	10-15	15-20	100	10-20	50	100	90-100	100
Fertilizers (kg/ha)												
Nitrogen Fertilizer 33%	50	50	50	100	-	-	-	-	50	50	-	-
Super Phosphates at 45%	50-100	-	50	50	50	50	-	100	50-100	50-100	30-50	30-50
Potassium Sulphate	-	-	-	-	-	-	-	-	-	-	-	-
Weed Killers	-	-	-	-	-	-	-	-	-	-	-	-
Mechanical Traction												
Tillage	2	2	2	2	2	2	2	2	2	2	2	2
Cross-Plowing & Seeding	3	3	3	3	3	3	3	3	3	3	3	3
Seeding	-	-	-	-	-	-	-	-	2	2		
Mowing	-	-	2	2	2	2	2	2	-	-	-	2
Harvester	1	1	-	-	-	-	-	-	1	1	1	-
Output (Quintals/Hectare)	10	12	150 M.V.	150 M.V.	150 200	150 200	80 (hay)	150 200	3	5	7-10	15 (hay)

M.V. = fodder in green condition

STANDARD TECHNICAL PARAMETERS.- FUTURE SITUATION

(excluding labor)

	Wheat H & SH	Wheat SAS	Wheat SAM	Barley	Beans	Vetch Oats	Annual Alfalfa 1st yr.	Alfalfa 2nd yr.	Sulla 1st yr.	Bersim 1st yr.	Sulla Bersim 2nd yr.
INPUTS											
Seeds (kg/ha)	100	100	100	100	110	100	10		15	25	
Fertilizers (kg/ha)											
33% Nitrogen Fertilizer	250	150	100	100	100	100	50		50	50	
P_2O_5 at 45%	100	100	100	100	250	100	200		200	150	
Potassium Sulphate	-	-	-		50	-	50		50	50	
Weed Killers (litre/ha) 1/											
Mechanical Services (hr/ha):											
Tillage	5	5	5	5	5	5	5		5	5	
Cross-Plowing	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5
Seeding	1	1	1	1	1	1	1		1	1	
Chemical Weeding	1	1	1	1	-	-					
Weeding, Hoeing	-	-	-	-	2	-					
Harvest Combine	1,5	1,5	1	1,5	2	-					
Mowing & Wind Rowing	-	-	-	-		2	manual		manual	manual	
Baling		-	-	-		2					
Transport (55 HP)	3	3	3	3	3	3	1	-	1	1	-
OUTPUTS (quintals/hectare)											
Humid Stage	25			30	15	Hay 35	-		400 M.V.	300 M.V.	
Sub-Humid Stage	25			30	15	Hay 35	300 M.V.	300 M.V.	-	-	
Upper Semi-Arid Stage	-	20		-	10	Hay 25	250 M.V.	250 M.V.	-	-	
Medium Semi-Arid Stage	-		15	20	-	Hay 20	200 M.V.	200 M.V.	-	-	
Duration of Crop Period	1 yr.	1 yr.	1 yr.	1 yr.	1 yr.	1 yr.	3 yrs.		2 yrs.	2 yrs.	-

M.V. = Fodder in green condition.

1/ Technical parameters will depend on specific weed killers selected for wheat and barley. Other crops will not require weed killer.

TECHNICAL PARAMETERS FOR STOCK FARMING

The outputs per female unit would be as follows:

	Present Situation	Future Situation
Local Cattle		
Meat production (live weight)	115 kg	150 kg
Recoverable milk production	100 liters	175 liters
Crossbred Cattle		
Meat Production (live weight)	-	200 kg
Recoverable milk production	-	800 liters
Sheep		
Meat production	24.5 kg	26.5 kg
Wool production	3.0 kg	3.0 kg

5. Sizes of Loans

Since the project is purported to be a Small Farmer Supervised Credit Project there should be strong evidence that the project will, in fact, reach the small farmers for whom it is being targeted. An analysis of statistics relating to the various classes of intended small farmer beneficiaries (as indicated by the number of hectares farmed) provides a basis for the conclusion that the project has a very strong small farmer bias. This information is summarized in the following table:

FARM AND LOAN SIZE PROJECT SUMMARY
FOR ANTICIPATED BENEFICIARIES OF THE PROPOSED
TUNISIAN SMALL FARMER SUPERVISED CREDIT PROJECT*

SIZE RANGE (HA.)	(0-5)**	(5-10)	(10-20)	(20-50)	All farms (0-50)
Ave. Farm Size in Range (HA.)	3	7	12	31	10
Number of Farms	3,585	2,760	4,033	1,287	11,665
Percent of Farms in Range	30%	24%	35%	11%	100%
Loan Volume for Range ($Mil)	2.6	5.7	10.3	9.5	28.1
Percent of Loan Volume for Range	9%	20%	37%	34%	100%
Ave. loan per farm (T.D.)	315	898	1,110	3,209	1,047
Ave. loan per farm (U.S.$)***	725	2,065	2,554	7,381	2,409

*Calculations based on research conducted by the Tunisian National Center for Agricultural Studies (CNEA) as reported in the publication, "PROJECT DE CREDIT AGRICOLE" UNDP/FAO TUN 72/004, May 1977. Figures have been rounded.

**Computations for the 0-5 ha. group were estimated based on factors utilized in the study and related to an incremental revolving loan fund amount to be allocated to the project to permit the financing of this "smallest of the small" group which was excluded from the original project design.

***Based on exchange rate of 1 Tunisian Dinar = U.S. $2.30

The assumption may be made that virtually all Tunisian farmers who operate less than 50 hectares in the project area are small and most have low incomes. It should be stressed that hectares of land operated is only one indicator of farm income potential. The quality and topography of land, the nature of climate and the amount and seasonal distribution of rainfall are some of the other relevant factors. The project design reflects this difference in factors affecting income in that farms are grouped according to size in each of four distinguishable bioclimatic zones. A tabular summary of the number of anticipated farmer beneficiaries within each size range in each bioclimatic zone is shown in the following table:

FARM AND LOAN SIZE PROJECTION SUMMARY
4 BIOCLIMATIC ZONES – TUNISIA
FOR ANTICIPATED BENEFICIARIES OF THE PROPOSED
TUNISIAN SMALL FARMER SUPERVISED CREDIT PROJECT*

	ALL ZONES	HUMID ZONE			SUBHUMID ZONE			SEMIARID SUPERIOR ZONE			SEMIARID MEDIUM Z.			ALL
		H-1	H-2	H-3	SH-1	SH-2	SH-3	SAS-1	SAS-2	SAS-3	SAM-1	SAM-2	SAM-3	FARMS
ZE RANGE (HA.)	(0-5)**	(5-10)	(10-20)	(20-50)	(5-10)	(10-20)	(20-50)	(5-10)	(10-20)	(20-50)	(5-10)	(10-20)	(20-50)	(0-50)
E. FARM SIZE (HA.)	3	7	13	30	7	12	31	7	12	30	6	13	32	10
MBER OF FARMS	3,585	440	507	160	1,040	1,113	293	1,000	540	647	200	1,873	107	11,665
OJECTED SEASONAL LOAN PER FARM (T.D.)	110	339	805	1,308	421	711	1,758	363	608	1,549	273	568	1,398	505
OJECTED LIVESTOCK PURCHASE LOAN PER FARM (T.D.)	100	660	814	1,650	330	–	165	150	125	1,320	200	375	–	303
OJECTED LIVESTOCK FACIL-ITIES LOAN PER FARM (T.D.)	100	800	750	1,250	250	–	500	90	75	1,000	120	225	–	239
TAL PROJECTED LOAN PER FARM (T.D.)	310	1,499	2,169	4,208	1,001	711	2,423	603	808	3,869	593	1,168	1,398	1,047
TAL PROJECTED LOAN PER FARM (U.S. $)***	714	3,448	4,989	9,678	2,302	1,635	5,573	1,387	1,858	8,899	1,364	2,686	3,215	2,408

* Calculations based on research conducted by the Tunisian National Center for Agricultural Studies (CNEA) as reported in the publication, "PROJECT DE CREDIT AGRICOLE" UNDP/FAO TUN 72/004, May 1977. Figures have been rounded.

** Computation for the 0-5 ha. group were estimated based on factors utilized in the study and related to an incremental revolving loan fund amount to be allocated to the project to permit the financing of this smallest of the small group which was excluded from the original project design.

***Based on exchange rate of 1 Tunisian Dinar = $2.30

The average size of loan for all of the 11,665 farmers expected to be included in the project (8,080 originally planned, plus 3,585 added for the less than 5 hectare category) amounts to T.D. 1,047 (U.S. $2,409) and the farms averaged 10 hectares. The three components of this average loan are seasonal credit, livestock purchase credit and livestock facilities credit. When aggregated by size range the 0 to 5 hectare group (3,585 farms) averages loans amounting to T.D. 315 and accounts for 30 percent of the projected beneficiaries and 9 percent of the loan volume. The 2,760 farms in the 5 to 10 hectares size group (average 7 hectares) are expected to have loans which average T.D. 898 which will account for 24 percent of the beneficiaries and 20 percent of the loan volume. The 4,033 farmers in the 10 to 20 hectare group (average 12 hectares) should have loans which average T.D. 1,110 accounting for 35 percent of the farms and 37 percent of the loan volume. The 1,287 larger small farms (from 20 to 50 hectares and averaging 31 hectares) are expected to have loans averaging T.D. 3,209 accounting for 11 percent of the borrower beneficiaries and 34 percent of the loan volume.

In all cases the sizes of the loans and the purposes for which loans are to be made will be contingent on the development of a farm plan which reflects the unique characteristics of each farm unit. The probable impact of the loan on farm productivity and applicants' credit worthiness are key factors which will determine whether a loan is to be made and, if so, on the amount of the loan. The exact composition of the loan portfolio by farm size group will be the result of the individual loan decisions. If the loan portfolio is to be heavily weighted toward the lower end of the farm size scale as opposed to the larger-small farm end of the scale, there must be a conscientous and continuing effort to identify and service potential credit worthy "smallest of the small" applicants. The project will attempt to establish the level of effective demand for the smaller farmers. USAID's proposed $211,000 grant for administrative support of the estimated incremental costs of servicing the less than 5 hectare component of the small farmer loan portfolio is intended to facilitate participation by creditworthy farmers from the "smallest of the small" group. In the event that the size of the revolving loan fund proves to be inadequate to service the effective credit demand for the "smallest of the small" and the "largest of the small" farmers, then priority is to be given to the smaller applicants. The early and continuing character of the project evaluation effort will monitor this facet of the project with a view toward bringing about prompt adjustments in the event that the effective demand of the "smallest of the small" farmer applicants is not being satisfied.

6. Price Policy

National policies affect directly and indirectly the prices of most inputs and all outputs connected with the Project. Cereals and livestock price policies are the carried out through the Office of Cereals, the Price Stabilization Fund, and the Societe Ellouhoum (the meat marketing board). GOT price policies should not prove to be a deterrent to successful execution of the Project. During the past 10 years, the price of durum wheat has been raised from about T.D. 4,800 to 7,100 per QL, and the price of soft breat wheat from about T.D. 4,200 to 6,600 per QL. These price increases reflected increased costs of production and inflation. Furthermore, 50% of the cost of imported inputs for cereals production (nitrogen fertilizer and weedkillers) is subsidized. During the period 1971-75, real beef prices fell by 36%. It should be recalled, however, that high beef prices in the early 1970s were in part the consequence of man-made scarcity (the effect of collectivization), and that the subsequent lower price may reflect the long-run equilibrium. Also, feed concentrate prices are subsidized, and, for many small farmers, livestock is a joint project involving few additional cash outlays.

7. Interest Rate

Tunisia's agricultural lending interest rate policy has been and continues to be the concern of bilateral donors and the World Bank. A 6 percent onlending rate for small farmer loans was established in conjunction with the negotiation of the World Bank's Second Agricultural Credit Project in 1976. Loans will be made at the new 6 percent rate for the first time in 1978. The GOT has taken a firm position that it is not prepared to increase the small farmer loan interest rate at this time. The GOT position is probably as much a reflection of its production input subsidy policy as it is its interest rate policy which has been tied to Tunisia's traditional piecemeal approach to agricultural credit. Under the piecemeal approach Tunisia does not have a firmly-established agricultural credit policy. The result has been a multiplicity of credit institutions and programs which have been directed toward the needs of the various target groups. Lending terms and interest rates have traditionally been soft and there has been diversity between and among the various sources of credit.

Low interest rates have fostered capital-intensive investments and have not resulted in the generation of adequate employment opportunities in the rural areas thus contributing to migration to the cities. The liberal credit policy has also had a negative impact on the GOT budget due to the subsidization of interest rates and the grant character of some loans. The flow of funds into small farmer lending schemes has not been encouraged through a higher interest rate rate structure. The low rates have contributed to the disincentives for small farmer oriented institutional credit programs.

Tunisia has no intention of raising its small farmer loan interest rate above the 6 percent level at this time. Insistance on a rate in excess of 6 percent for this project could be expected to result in the abandoning of the project and the impeding of small farmer development efforts. There is insufficient leverage in this project to force an upward revision in the onlending rate. As a means of encouraging future upward adjustments and to maintain a common position with the World Bank the interest rate structure will be included in the agenda of topics to be addressed in the scheduled periodic project evaluations.

8. Other Donors

In 1976 the World Bank (IBRD) approved a U.S. $12.0 million equivalent loan for a second agricultural credit project to be administered by the Banque National de Tunisie (BNT). This loan did not become effective until July 1977. One of the components of this project involved $3.9 million for medium term onlending to small farmers for a variety of medium-term purposes including the purchase of dairy heifers and draft animals and for the construction and improvement of irrigation wells and facilities. In addition funds from this category would be used to finance equipment for service cooperatives and Societe National de Motoculture (SONAM) to enable these entities to provide small farmers with custom tractor and harvesting services. As of the end of 1977 no sub-loans had been made under this category as appraisal and supervision procedures were still being developed by BNT. The project is not envisioned as a supervised credit project and is not restricted to dryland farming. It was envisioned that 660 loans would be made to small farmers most of whom were expected to come from the Northern part of Tunisia, the northeastern coastal areas and from areas surrounding the larger population centers. Under the project a farmer would not be eligible for loans on the 6 percent concessional terms and grants if his annual farm income should exceed T.D. 600 and BNT would check to be sure that agriculture provides the main source of beneficiaries' income. As another check to provide assurance that credit on concessional terms is extended to small farmers who have not had access to adequate institutional credit, farmers would not be eligible if they had received more than T.D. 5,000 under concessional credit terms from FOSDA and similar funds. IBRD financed sub-loans would not exceed the difference between the amount of concessionary credit received and the T.D. 5,000 upper limit.

Under the IBRD financed project the GOT would pay to BNT a compensatory commission equal to 3 percent of the portion of outstanding loans financed. The commission is intended to cover BNT's project related costs and allow for the estabilishment of an adequate reserve for bad debts. For small farmers BNT would be onlending its own funds in blend with IBRD funds but would have partial recourse to GOT in the case of non-repayment of loan installments one year after due. BNT would assume 10 percent of the default risk on loans granted during the first two years after IBRD loan effectiveness and 25 percent later on.

No potential conflicts were apparent between this World Bank financed undertaking and the proposed AID financed Small Farmer Supervised Credit project. The World Bank official with whom AID proposal was discussed indicated support and stressed the desirability of maintaining a common small farmer interest rate at the 6 percent level and other common terms whenever possible.

B. Financial Analyses and Plan

Project Costs

The following table summarizes the financial plan for 4 years. The largest U.S. contribution will be a $17,300,000 loan to establish a revolving capital fund from which supervised loans will be made to eligible small and medium-size farm operators in the project area. After the first year, and on a yearly basis thereafter, GOT has agreed to reimburse the fund for any depletion of the fund as a result of farmer borrowers not repaying their loans as agreed. For budgetary purposes, the amount of 20% advanced to farmers during each year is estimated as a reasonable amount of reimbursement necessary to keep the fund from being depleted.

Other U.S. contributions will be grants amounting to $907,000 for the following purposes:

1. $544,000 for two resident U.S. technicians for 4 year terms, and two U.S. short-term consultants (6 person-months).

2. $211,000 for administrative support for the 0-5 hectare farmers portion of the lending program (10% of total administrative costs).

3. $ 52,000 for administrative support for regular surveys and project evaluations by "Centre National Des Etudes Agricoles" (CNEA).

4. $100,000 for training and project support.

PROPOSED FINANCIAL PLAN (Disbursements)
(U.S. $000)

ITEMS	TOTAL	FY 78	FY 79	FY 80	FY 81
U.S. Contribution - 43.1%					
1. Revolving Fund for Short-Term Seasonal Crop Loans	13,200	2,442	2,442	4,884	3,432
2. Revolving Fund for Medium-Term Livestock and Small Farmer Equipment Loans	4,100	558	558	1,116	1,868
3. U.S. Resident Technicians (2) 4 years	500	150	140	105	105
4. U.S. Consultants (6 PM)	44	20			24
5. Administrative Support for 0-5 ha. Farmers (10% of Administrative Costs)	211	101	33	71	5
6. Technical Support for periodic Project Evaluations (CNEA)	52	10	10	24	8
7. Training and Project Support (44 PM)	100	25	25	25	25
TOTAL US CONTRIBUTION	18,207	3,306	3,208	6,225	5,468
GOT Contribution - 56.9%					
1. Fund for medium-term livestock shelter construction loans	7,581	1,137	1,137	2,274	3,033
2. Fund for medium-term livestock purchase loans	3,010	508	508	1,015	979
3. Administrative Costs*:	2,108	449	386	544	729
(Personnel)	(1,721)	(307)	(342)	(458)	(614)
(Equipment & Operations)	(387)	(142)	(44)	(86)	(114)
4. Contingency and Inflation Costs (10% of Project Cost)	3,078	529	518	1,004	1,027
5. Maintenance of Capital for the revolving funds**	8,223	642	1,389	2,572	3,620
TOTAL GOT CONTRIBUTION	24,000	3,265	3,938	7,409	9,388
PROJECT TOTAL	42,207	6,571	7,146	13,634	14,856

*Includes Trust Account Funds

**Portion related to medium-term livestock loans will actually occur in later years but is shown here in same year as that in which loan was made in order to simplify tabular presentation while still accurately reflecting real GOT contribution.

The planned complement of U.S. funded technicians is needed for USAID to properly monitor, supervise and guide the implementation of a project of this magnitude and nature.

The administrative support for including 0-5 hectare farmers in the project is an added cost which the GOT project proposal and budget did not include. At USAID's suggestion GOT agreed to remove the minimum size of farm as an eligibility criteria and to determine applicant eligibility on the basis of a farm plan which would indicate loan repayment ability. It is estimated that this change will result in a minimum 10% increase in administrative costs.

The administrative support for semi-annual surveys and yearly evaluations of the project is considered important for a program of this nature. This will replace the customary 2 year evaluation. This activity will be carried out by CNEA, the same research organization that developed the project proposal. They have the staff and expertise to carry out a periodic systemized study of this nature with the objectives of identifying operational problems early and documenting the general progress of the project. This type of monitoring will be valuable to reduce the "Data Gap" often associated with projects of this nature. It also will be valuable experience for CNEA to follow through on a project they helped to design. The implementation plan includes more details on CNEA responsibilities concerning these evaluations.

The GOT contribution is mostly self-explanatory and includes administrative costs of the project, except the 10% for 0-5 hectare farmers provided by the U.S., loan funds for the construction of livestock facilities, 10% for contingencies and inflation, and the previously mentioned 20% maintenance of capital for the revolving loan funds established by U.S. and GOT contributions. The PID contained the following sentence: "The BNT through FOSDA will finance medium-term credit for livestock procurement." During the course of discussions with GOT officials in conjunction with the preparation of this PP, GOT indicated that it would not have the FOSDA funds needed to finance the farm level livestock procurement element of this project. GOT requested that the AID loan be enlarged by \$4.1 million (see item 2 of FINANCIAL PLAN - page 22) to permit the financing of livestock and by \$7.581 million for medium term livestock shelter construction loans. Both GOT and Mission view the livestock component to be a vital element of the small farmer's farm management plans. Deletion of the livestock component would eliminate the justification for the project. In addition, the project is viewed as a very important complement to the Accelerated Livestock Production and Livestock Feed Production and Utilization projects. In view of the importance which GOT and mission place on this project the conclusion was reached that the GOT should make suitable arrangements to provide a $7.581 million fund for medium-term livestock shelter construction loans and that AID should be requested to increase its proposed loan by $4.1 million to provide the revolving fund for medium-term livestock purchase loans.

Over a four year basis U.S. contributions amounted to 43.1% and GOT 56.9% of the total cost. Over a 4 year basis the U.S. contribution will be $18,207,000 and GOT $24,000,000.

After the 4th year it is anticipated that farmers who borrowed for livestock previously will be able to carry on without additional livestock credit. Further herd development will come from their own stock. The full amount to be provided by the GOT for construction of livestock shelter may not materialize as expected. Nevertheless, the minimum GOT contribution of 25% should be easily exceeded.

C. Social Analysis

1. The target group, or beneficiaries, consist of operators of small to medium-size dryland farms of 50 hectares or less within the five northern provinces. This group falls generally in the lower third of the income distribution of the Tunisian population. The average farm family of the target group has a net income from farm activities of 385 TD. The average rural Tunisian family consists of 6.5 persons which means a per capita annual expenditure of less than 60 TD. Of the total Tunisian population, approximately 81% have an annual per capital expenditure greater than 60 TD. Only 12% of the target group falls above the lower 40% of the Tunisian population, while some 9% of the group falls within the lowest 4% of the Tunisian population. The above calculations do not take into account the less than 5 hectare farmers who are a part of the target group but for whom income data are not available. Their inclusion in the equation would further lower the standing of the target group in relation to the income distribution for the total Tunisian population.

(a) The target group represents a potential for substantially raising agricultural output through increased yields. The project will also have a positive effect on the equity difference between the rural and urban populations (rural revenues lag some 50% behind the revenues of the urban population) and will allow more smaller farmers to participate in and benefit from the technological change that is occurring in the agriculture sector of Northern Tunisia.

(b) The beneficiary group represents the poorest strata of small and medium-size operators. The low average income of this group has been caused in part by its exclusion from formal credit and marketing services. In addition, it is on the smaller farms that the gap between

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potential and actual yields is greatest. It is, therefore, the smaller farms that represent the most potential for productivity gains.

(c) Benefits of this project accrue directly to the ultimate target group, although it is anticipated that farmers other than the 11,665 to be included under this project will adopt certain aspects of the technical package. The target group will as a result of combining (1) a line of production credit, (2) access to improved inputs, (3) regular technical assistance, (4) farm production plans, and (5) a new level of production technology, be able to diversify and intensify on-farm production and increase farm incomes.

(d) Details of this project have been jointly developed with GOT officials, and it is primarily in response to their request that the project is being developed. The project grows out of a detailed study by CNEA, and has benefitted from considerable consultant assistance in the organizational format and the social soundness analysis. Random samples of potential participants revealed general agreement and positive response to the project objectives. Reaching the target population of 11,665 small farmers through this project is, therefore, socially and politically feasible.

2. (a) 41% of the land operated by farmers having over 100 hectares in northern Tunisia is rented from other landowners. Many of the landowners are small farmers who are forced to rent out their land due to a credit constraint (both production and consumption). Any project which gave credit to small farmers would tend to reduce the size of larger holdings that are highly dependent on rented land. Such a project would consequently be opposed by the large farmers.

There are, however, a number of reasons for believing that large farmer opposition will not prove to be an insurmountable obstacle to project implementation. First, many small farmers are not currently renting out their land to large farmers. Reaching them with project benefits would not threaten the interests of any large farmers. Project resources could be exhausted by simply furnishing resources to small farmers who are currently owner-operators. Second, many small farmers who rent out their land did so because they have superior off-farm income opportunities. They would not be interested in resuming owner-operation even if improved inputs were made available to them on credit. Consequently, the large farmer to whom they rented their land would not be threatened by the mere availability of credit for them. Third, large farmers undoubtedly prefer renting land from landowners having more than 50 hectares, and they might, therefore, be indifferent to a program which restricted the availability of credit to small farmers. Finally, regional authorities might force the large farmers to acquiesce to project implementation in their area. The large farmers are undoubtedly influential at the local level, but they do not have the "last word" regarding program implementation. In certain instances, regional authorities will overrule large farmer objections to project implementation. However, small farmers and the rural poor generally will not be made worse-off even where large farmer objections are sustained by regional authorities. Women farmers who meet loan criteria will be considered for loans and technical assistance as any other loan applicant.

(b) Some Tunisian officials have proposed service cooperatives as a way of organizing small farmers to receive purchased inputs for production activities. However, it appears that the small farmers in northern Tunisia themselves do not have a propensity to form service cooperatives voluntarily. Since most small farmers inherit their land, kinsmen usually have adjoining fields. Moreover, kinsmen in rural Tunisia often live together in douars. Despite this proximity, cooperative forms of production activities are generally lacking among family members. There is occasional mutual aid (as, for example, the sharing of animals for threshing), but it usually is on a limited, ad hoc basis.

Tunisians generally seem to feel that there should be one person responsible in any given area of decision-making (a "premier responsable" or "ms'ul usl"). Situations of collective decision-making, such as service cooperatives, are seen as engendering factionalism within the community. By not creating collective decision-making structures, the possibility of group conflict is diminished.

Given this cultural disorientation towards collective decision-making, one should not expect genuine service cooperatives to emerge spontaneously in rural Tunisia. The project takes the approach of having services provided to participating farmers by parastatal agencies and private machinery owners. Given the cultural constaint that appears to exist in setting up institutions of collective decision-making, this approach rather than that of service cooperatives appears to be justified.

D. Economic Analysis

Calculations of project impact at the farm level were based upon 12 production models differing in size (7, 12-13, and 30-32 hectares) and in bioclimatic zones (humid, sub-humid, superior semi-arid, and medium semi-arid). Corresponding farm budget levels and land use patterns were also adapted to the different production medoels.

A comparison of projected production increases shows that output could increase from some 42% in medium semi-arid zones to 240% in the humid areas. Incomes, i.e., gross value of production less charges for inputs are shown to increase in a range of 24% to 71% for the medium-semi-arid zone to 230% to 355% for the humid area. These projections assume 100% attainment of expected output by the second year and optimum production conditions. The additional short-term risk (seasonal production cost) for most cooperating farmers will range from about four-fifths to twice that of present risk. Average costs for all farm models will increase some 96% while incomes will increase approximately 127%.

The internal rate of return was calculated over a ten year period. All costs related to project implementation are taken as charges against the project. Benefits were taken as the value of anticipated production increases resulting from the project. On this basis the IRR is above 50%. Subjected to a sensitivity analysis where project output amounts to only 75% of project increase, the IRR falls to 34%. Supposing that outputs reach only 75% and that project costs rise 10%, the IRR still remains acceptable at 27%.

Value added was calculated on the basis of aggregate cost and production projections of cooperating farmers. Future outputs were assumed to meet 75% of projection levels during the first year and 100% during the second and subsequent years. Labor costs were not included as the project is designed so that the manpower ratio remains the same and because labor needs are usually supplied from under-utilized sources within the family. On this basis, the annual added value in a typical year (the fifth project year) amounts to some 7.5 million TD on an average added value of 71 TD per hectare.

E. Repayment Prospects

Tunisia's external debt profile, including the maturity structure of the debt, has improved considerably in recent years compared with the situation prevailing in the 1960s. The share of outstanding official loans, obtained on relatively concessionary terms, had increased continuously, and by 1975 it accounted for 82% of the total outstanding debt, while the level of outstanding debt from private foreign lenders had declined correspondingly. According to preliminary data, the more accelerated increase in the outstanding debt in 1976 was accompanied by a fractional decline in the share of outstanding official loans; for 1977 the proportion of these loans in the total is projected to decrease to 76%.

Tunisia's outstanding medium and long-term official external debt increased by an average of 8.3% annually between 1973-75, rose 18% in 1976, and is expected to accelerate further in 1977 and after as the need for foreign borrowings to finance the new development plan increases. The bulk of the commitments entered into during the period 1972-76 were official loans, including those from international agencies. Following a decline of new commitments in 1973 and 1974, the amount of new loans contracted in 1975 rose by 97% and by 60% in 1976, reflecting the increased needs for foreign borrowings for the execution of the old (1973-76) and the start of the new (1977-81) development plans. However, the average terms and the grant element of the new commitments have remained extremely favorable. While the proportion of new commitments in the longer maturity ranges of over 10 years had declined somewhat, from an average of 94% during 1972-75 to 89% in 1976, the average maturity improved fractionally in 1976 (24.7 years compared with 24.3 and 23.0 in 1975 and 1974, respectively). The reason for this is that in 1976 there were a number of loans within the over 15-years category contracted on very concessional terms, with maturities of between 30 to 50 years. At the same time, Tunisia also continued to benefit from favorable average interest rates (4.02% in 1976), while the grant element, which amounted to 55% in 1973, fluctuated downward but was still a very advantageous 44% in 1976. Similarly, the debt service ratio, which amounted to well over 20% at the end of the 1960s, declined steadily to 8.2% in 1974. With stepped up amortization and interest payments, and a stagnation in receipts from exports of goods and services, the debt service ratio increased to 10.8% in 1976 and is projected to rise further to 11.7% in 1977. While the envisaged increase in new borrowing under the Fifth Development Plan, with heavier reliance on private loans, including borrowing on international financial markets, is expected to increase the debt service substantially, the projected composition of such new borrowing is not expected to increase the ratio of service payments to exports of goods and services beyond 20% by 1981.*

The proposed relending terms of the loan (6 percent) are in conformity with GOT and U.S. regulations and are considered to be reasonable under the prevailing circumstances.

IV. IMPLEMENTATION PLANNING

A. Administrative Arrangements

1. The Government of Tunisia is the official recipient of the U.S. contribution to the small farmer supervised credit project. The loan capital fund will be managed by the BNT through a special revolving account to be established for this purpose. BNT, through its agencies in the project areas, will have the responsibility for receiving farmer loan applications which have been properly prepared by a project agricultural agent and processed through a mutual guarantee society (SCM) and a local credit committee. U.S. technical assistance will be provided through PASA agreement with the U.S. Department of Agriculture, or through other contractual arrangements.

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*IMF, "Tunisia-Recent Economic Development" dated 5/26/77.

Borrowers whose loan applications have been approved will be authorized to obtain the agricultural inputs as planned. The BNT will then reimburse suppliers of agricultural inputs and services. BNT will be responsible for collection of individual loans and will work closely with the respective SCM and the agricultural agent in this regard. Repayment will be made to BNT personnel assigned to the area. Mobile banks may also be available at local markets on market day to receive collections.

All collections, principal and interest, will be added to the revolving fund as received. BNT commission charges of 3% of disbursements for providing banking services will be deducted once a year from interest collections. The BNT will provide a monthly detailed report to CNEA and the central office of coordination for small farmer credit program concerning status of all borrower accounts, number and amounts of disbursements, number and amounts of delinquent loans, amounts of interest and principal collections, status of revolving capital loan account, comments on operating and collection problems and a summary of the progress of the banking aspect of the project. The history and background information on BNT is covered under Annex E, Intermediate Credit Institution.

An office of coordination for the small farmer credit project will be established to coordinate the various aspects of this project. Representatives on the coordinating committee will come from a new division under the Ministry of Agriculture called "Directorate of Assistance to Small Farmers" Division of Agricultural Production, and BNT. Other officials from other organizations will be invited to participate as necessary. The U.S. credit technician will participate on an advisory basis.

The Division of Agricultural Production will be responsible for administration of the project, except for the banking services. This includes recruiting, training and supervising agricultural personnel; provision and maintenance of equipment, supplies, and materials; provision of overall operating expenses; reporting on progress of field operations to the coordinating committee; etc. Presently a reorganization of the Ministry of Agriculture is underway. Such changes are not anticipated to affect this project adversely. Indications are that the new organization will focus more on the problems of the small farmer.

Other organizations involved in the project are:

(a) Office of Cereals: This is a semi-autonomous organization which provides improved seeds, fertilizers and weed and insect control chemicals to the rural areas. It is also the official purchaser of wheat and barley from farmers. This office will work with project personnel to ensure that adequate seeds and other materials are available when and where needed. It will also assist the BNT in collection of loans by deducting the amount owed BNT from seller's product before paying the seller for his grain.

(b) Office of Livestock and Pastures (OEP): This is also a semi-autonomous organization under the division of agricultural production. It is involved in livestock research, development and multiplication for all Tunisia. The OEP will provide improved livestock for borrowers of the project and assist field agents with forage development on borrowers farms. Officials of OEP indicated they do have adequate improved livestock to meet the needs of the project.

(c) National Union of Tunisian Farmers (UNAT): This is an independent farmer organization similar to the Farmers Union or Farm Bureau in the U.S. It claims to have a membership of 200,000 which has at least doubled since 1975. Basic objectives are to defend the interest of farmers and act as a spokesman for farmers when dealing with the government. It has a pyramidal organizational structure with a central office in Tunis and provincial offices at the regional, delegation and district levels. Membership fee is 1 TD each and it receives no government assistance. One of their main goals is to assist farmers to obtain better production. It has pledged to give cooperation to this project including promotional assistance, moral support and reinforcement for the collection of loans.

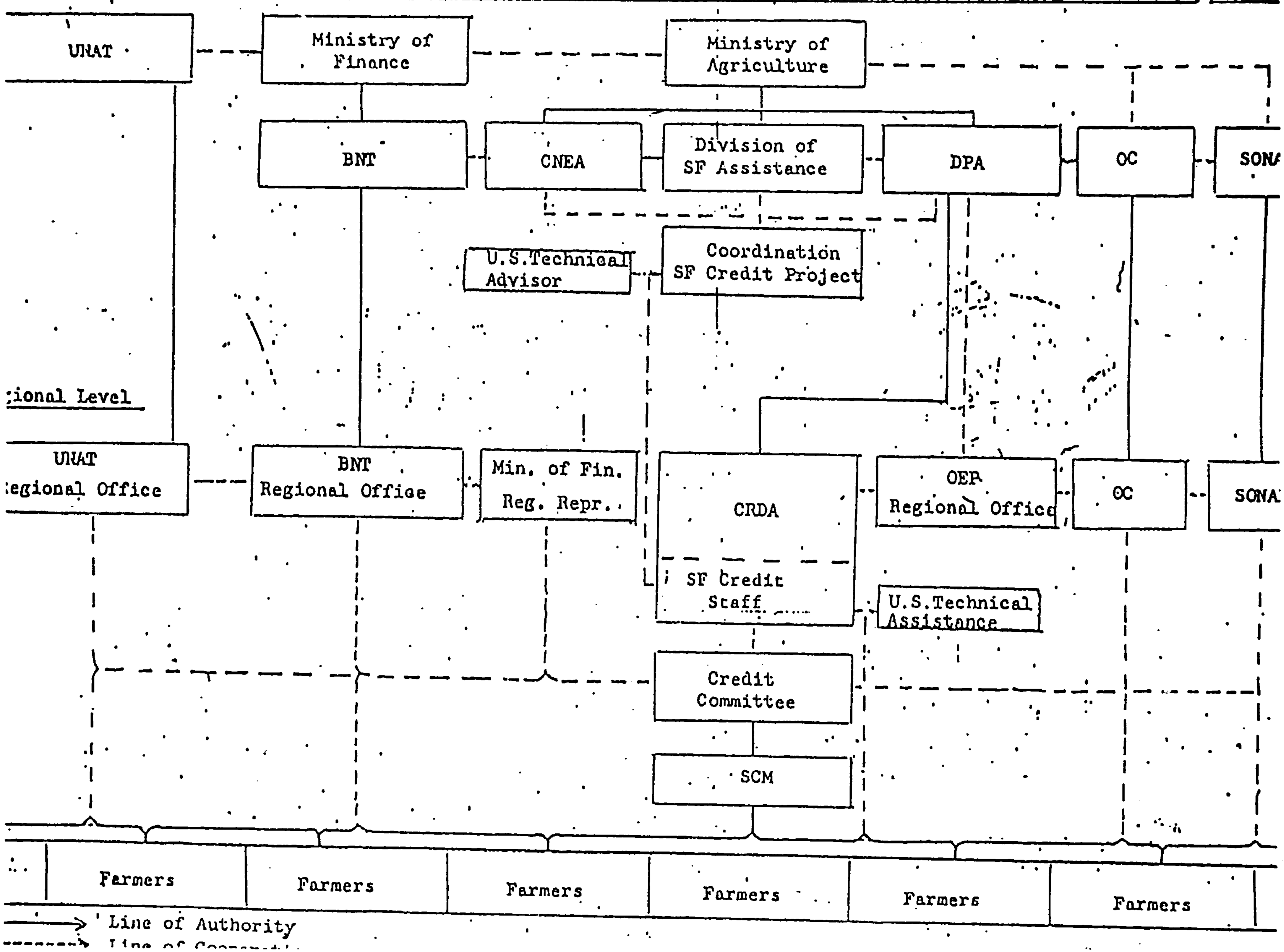
(d) National Mechanized Farming Company (SONAM): This is a semi-autonomous organization established to manage a system of farm equipment custom work services to farmers. It has 21 branches with workshops throughout the country and about 200 tractors with a variety of attachments for the different types of farming. It is estimated that SONAM owns about 5-7% of the farm equipment in Tunisia.

The initial project proposal included plans to finance an expansion of SONAM with tractors, related equipment and improvements to existing workshops and addition of some new ones. However, GOT has not obtained a source of financing for this input.

After considerable study of this situation it was determined that there now exist in Tunisia more than 12,000 tractors owned mostly by private operators. Most of these tractor owners do custom work for neighbors. The concensus was that most farmers who needed to hire machinery could find it in their reasonable vicinity. On this basis it was not considered vital to the project if SONAM was not expanded as planned. This point is further addressed in the technical analysis, Section III. A. 3.

(e) Mutual Guarantee Societies (SCM): The SCM was legally established pursuant to Act No. 73-80 of December 31, 1973 and decree No. 74-853 of September 4, 1974 establishing the status and decree 74-212 of March 25, 1974 setting forth the conditions for enforcing the act.

SYSTEM OF ORGANIZATION FOR THE SF SUPERVISED CREDIT PROJECT ANNEX



Its basic objective is to provide encouragement to expand farm credit by guaranteeing loans provided to their members by a credit institution. Each society is organized on its own without relation to other societies. The Ministries of Finance and Agriculture are responsible, each as far as it is concerned for the enforcement for the decrees.

The SCM's are not subject to the registration requirement in the trade register and cannot own any property except that needed for its operations. Membership share is a minimum of 5 TD each and a society must have a minimum share capital fund of 1000 TD before being legally established. The share capital fund cannot be reduced below the original $2,300 through withdrawals by members. Membership is limited to small and medium-size farmers. If a member becomes larger than a small or medium-sized farmer he can no longer participate as a member.

Other adequate and standard oragnizational requirements are included in the legal body of the act for these societies.

SCM's work in conjunction with local farm credit committees composed of some combination of the following:

(1) The local representative of the Ministry of Agriculture, acting as chairman.

(2) The local representative of the Ministry of Finance.

(3) Representative of BNT.

(4) President of the respective SCM.

(5) Representative of the local UNAT.

(6) Representative of the Office of Cereals.

Loans are granted to SCM members whose loan request have been approved by the respective local farm credit committee.

The committee decisions are made in writing and a majority vote constitutes the final decision. In case of a tie, the committee chairman has a vote. After a committee has approved a loan, the banking institution involved (BNT) will obtain a mortgage on crops as well as on all natural and industrial products of borrower's farm. Crop insurance against hail and fire will be obtained.

Under Article 1 of the Decree, the cooperating banking institution will develop more detailed procedure in an agreement with the Ministry of Finance. Such agreement will determine in particular the conditions of the intervention by the banking institution as well as the guarantees given the latter by the state. In this regard BNT has described their agreement with the Ministry of Finance in a BNT circular dated December 4, 1974. In summary, this agreement states that BNT and the SCM will make every effort to collect all loans. Those loans determined unrecoverable after the second crop year will be assumed in the following manner.

5% by the BNT

25% by the SCM from share capital fund

70% from a reserve fund established by the SCM

In case this formula does not cover the losses, the state will make up the balance. For this project GOT will reimburse the project revolving capital loan fund each year for losses from non-payment of loans extending beyond two crop years.

BNT officials stated they have worked with the SCM system for about 2 years. The first year they had about a 94% collection rate. The second year the collection rate dropped nearly to 65%. This was attributed to adverse weather conditions that drastically reduced yields. However, they hoped to collect most of these delinquencies this year providing yields are adequate.

The SCM system is a new venture for Tunisia. Although it is promoted and backed by the GOT, members are required to invest an amount that gives them a sense of ownership in their capital fund. Peer pressure is used to reduce delinquencies of members who have the means to pay.

In principle, if the SCM has to make up losses from its share capital fund, the fund may drop below the 1000 TD ($2,300) minimum required for the SCM to be legally recognized. In this case none of the members would be eligible for further loans until the share capital fund was restored to the 1000 TD minimum level.

2. Role of A.I.D.

The basic role of AID in the implementation of this project is twofold:

(1) Provide a revolving capital loan fund of $17,300,000 for making supervised agricultural credit loans to small and medium-sized farm operators.

(2) Provide technical assistance and a minimum amount of budget support to assist the Ministry of Agriculture and the BNT with the detailed oragnizational plans, training of personnel, monitoring of credit operations and making periodic evaluations of project progress.

The success of this project will depend more on the way it is managed than any other aspect. Similar to most supervised agricultural credit programs this project has a complex operational structure. It involves considerable coordination among several organizations and at least two ministries (refer to the organizational diagram Annex A).

Many organizational and operational details including policy decisions must be dealt with as the project develops. This is where U.S. technical assistance will be of vital importance. Such technical assistance will be directed to assist in the overall policy and coordination aspects as well as at the provincial level where loan processing takes place. U.S. technical assistance is planned for the four years of the project and terminated as Tunisian personnel acquire more experience and knowledge about project management.

What is the likelihood that this Project will be managed more successfully than the SIDA Project? In assessing the prospects, one may be inclined towards either of two positions: that history is bound to repeat itself, or that improved performance will occur thanks to the lessons learned in implementing the SIDA Project. Certain Tunisian officials stressed the need to modify the current Project in light of the SIDA implementation experience. The SIDA Project was formally evaluated in 1976 after 2½ years of operation, and a number of specific recommendations were made that could be put into effect from the beginning of this Project.

Predictions of the performance of this Project should take into account the following considerations:

a. The Project staff will not have direct line authority over the parastatal agencies (BNT, OC, OEP) on whose performance the success of the Project will depend. Agreements (conventions) between the Project and these agencies may prove to be an adequate substitute for direct line authority.

b. Many of the SIDA Project's management problems were caused by the deficient performance of SONAM (formerly COCEMO). Unlike SIDA, this Project will not rely on SONAM as the exclusive supplier of custom machinery services to participating farmers.

c. The capability of the extension staff to adequately carry out a supervised small farmer credit project is the most important unknown factor on which the successful performance of the Project depends. This area represents the greatest potential for institution-building by the Project.

We shall next elaborate upon each point.

a. SIDA Project designers failed initially to conclude agreements with the agencies that would be supplying inputs and services to the Project. The BNT and OC are complex organizations of tested capability. Once agreements are reached detailing their responsibilties with regard to the Project, they are likely to perform satisfactorily. The performance capability of the OEP is harder to estimate at this time since it is a new organization. The location of the U.S. AID-assisted Accelerated Livestock Project within the OEP should facilitate development of good working relations.

b. SIDA Project designers made the mistake of giving SONAM exclusive rights to provide machinery services to participating farmers. This mistake has been avoided in the current Project design, though not in a way that indicates anything has been learned about the shortcomings of public sector machinery stations. SONAM has not been given a monopoly to supply custom machinery services because the GOT has not succeeded in finding a donor to finance the machinery component of the Project. Because SONAM lacks a sufficient quantity of equipment, participating farmers will be given the choice of purchasing custom machinery services from SONAM or from private operators. The access of the farmers to local custom services markets will eliminate many of the management problems that plagued the SIDA Project.

c. The Project proposes to maintain a high intensity of extension; one "adjoint technique" per 100 participating farmers is foreseen. This quantitative target can undoubtedly be achieved. The uncertainty at this point concerns the quality of extension work. This is a supervised credit project. Many Tunisian agricultural workers have a more directive understanding of "supervision" than many farmers will tolerate. Farmers are unlikely to participate in the program if it means having to accept a farm management plan that is contrary to their preferences. Extension agents will have to be impressed with the necessity of taking farmer's preferences into account in formulating farm management plans. This will be difficult to accomplish since Tunisian agricultural workers tend to be convinced that small farmers especially are ignorant, and that trained technicians can make better management decisions. At the same time, if the Project contributes to bringing about a relation of mutual understanding between private farmers and agricultural technicians, it will have far-reaching beneficial effects on the entire range of development activities in the agricultural sector.

The multiplication aspect of this project is its most important characteristic. The GOT is already looking ahead to expansion of the project to include an additional 10,000 small and medium-sized farmers once the project is operating successfully. Replicability is likely to be in the smaller farm units gaining from the experience provided through the implementation of this project.

3. Loan Processing, Supervision and Collection

(1) Background

The project involves the making of supervised loans over a 4 year period to 11,665 farmers whose farms do not exceed 50 hectares in size. The total area of these farms is estimated to be 108,000 hectares, located in the five Governorates of Beja, Bizerte, Nabeul, Zaghouan and Siliana.*

The objectives are to increase the production of cereals, forage and livestock per unit area by providing small and medium-sized farm operators with more intensive agricultural technical assistance, improved seeds, fertilizer and other chemicals, better quality livestock and credit in kind to finance inputs, and services. This category of farmers has received limited amounts of this assistance in the past and consequently are producing far less than their potential. On the basis of 12 model farms, research and supplemental surveys, the potential for increasing farm production is 104 - 242% in humid areas and 42 - 81% in semi-arid areas.

(2) Organization and Personnel

Credit operations in the 5 governorates will be decentralized. Presently each governorate has an agricultural commissioner in charge of all agricultural activities in his area. He has a support staff and several extension agents. This unit is called the "Regional Commission for Agricultural Development" (CRDA). The commissioner is responsible to the Director for Agricultural Production in Tunis who coordinates all CRDA units throughout the country.

A credit staff will be added to each CRDA unit in each of the 5 governorates involved in this project. There will be an engineer (Principal Regional Agent) in charge of the credit operations with a number of credit supervisors (Field Agents) working under him. The number of supervisors will be determined on the basis of 100 borrowers to each supervisor. The credit staff will have the support and backing from specialists already present in each CRDA unit. By the 4th year it is planned that at least 6 engineers and 83 supervisors will be recruited plus related support staff. Additional office equipment is planned as well as the purchase of 31 vehicles for transport of supervisors and engineers.

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*Not including land operated by farmers having less than 5.1 hectares.

The project is planned to develop on a gradual basis. The objective is to reach 15% of the 11,665 targeted farmers the first year, 30% the second, 60% the third and 100% the fourth year. Personnel will be recruited and trained and equipment, supplies and services will be made available at the same rate.

(3) Loan Processing

The present timetable calls for project personnel at the governorate level to carry out a promotional and information campaign about the project during June of 1978. This will include informing local SCM's about the program. If no SCM exists in certain areas, the local agricultural commissioner and his staff will assist interested farmers to organize. Since loans will be made without land title guarantees, only SCM members will be considered for loans. Loan applications will be accepted from July 1978 onwards.

After a farmer has indicated an interest in a loan a credit supervisor will assist him with developing a farm plan. If it is possible to develop a farm plan that incorporates appropriate farming improvements, and indicates increased production and shows repayment ability, the plan and application will be channeled through the respective SCM to the local credit committee. (Refer to 1, e under implementation arrangements.)

If the local credit committee approves the application, the credit institution (BNT) will process the necessary security documents, including the SCM guarantee, and authorize the borrower to obtain the necessary inputs and services as planned. The credit supervisor will assist the borrower in arranging for tractor and machinery services and for obtaining improved seeds, fertilizer, livestock and other inputs. He will also certify invoices for services and inputs. The BNT will reimburse suppliers either directly or through the use of a purchase order or coupon.

(4) Loan Supervision

Credit supervisors will be responsible for keeping an up-to-date file on each borrower. An average of 8-10 farm visits will be made during the life of the loan to ensure compliance with the planned program and to assist with problems as they occur. He will also assist the BNT with its collection efforts wherever possible through encouragements to the borrower and providing BNT information on harvest times and amounts.

Periodic reports will be made on borrower's progress including repayments, production, income and general progress in relation to the plan of operation.

(5) Loan Collection

The BNT will be responsible for loan collection. It is anticipated that borrowers will repay when they receive income from harvest or sell livestock or livestock products as agreed to in the farm plan. Mobile banks are planned to be located in areas convenient to farmers such as market areas to facilitate in loan collection.

Names of borrowers who do not repay as agreed will be referred to their respective SCM. The SCM board will investigate the delinquent members and apply appropriate peer pressure for repayment. If repayment is not forthcoming the case will be handled in accordance with procedure described under paragraph A, 1., Administrative Arrangements, this section.

The BNT will provide a monthly status report of all borrowers' accounts to the central office of project coordination and to CNEA. They will also provide the respective governorate agricultural commissioners with a semi-annual status report for borrowers in their respective areas.

B. Implementation Plan

1. Prior action:

a. Project paper is approved.

b. Project agreement executed and initial obligating documents signed by March 31, 1978.

2. Time Table:

April 1978

a. Complete recruitment of two U.S. resident technicians and one consultant.

b. GOT effects mobilization of project personnel as established in project agreement and project proposal.

c. U.S. short-term consultant arrives to assist with project organization.

May 1978

a. Two U.S. resident technicians arrive.

b. Project organizational plans documented in detail with appropriate changes.

c. Detailed procedures developed and documented for the operation of the project including promotional activities, applicant selection and eligibility guidelines, applicant analyses and farm planning, loan processing, borrower supervision techniques, loan collection, system for reporting and data collection, system for monitoring and analysing of field activities.

d. Design appropriate forms which will facilitate the efficient operation of the project, collection of data, monitoring and analysis of field operations.

<u>June 1978</u>

a. Field Training sessions carried out for credit agents as previously planned.

b. Surveys made to ensure that participating organizations will have equipment, services, seeds, and other inputs available by July when applications for loans will be accepted.

c. Project personnel in 5 project areas carry out a promotional and informational campaign in respective areas to inform farmers and important officials about the objectives and method of operation of the project. Area credit committees will also be informed of their role in the project.

d. First tranche of AID loan and grant disbursed to GOT-BNT.

<u>July 1 - September 1, 1978</u>

a. Applications for loans accepted from farmers.

b. All materials and services available and in place for project use as agreed in project agreement and project proposal.

<u>November 1978</u>

First project survey by CNEA.

<u>June 1979</u>

a. Second tranche of AID loan and grant disbursed.

b. Recruit and train additional personnel as planned.

<u>August 1979</u>

Second project survey by CNEA.

<u>November 1979</u>

Third project survey by CNEA.

<u>December 1979</u>

First evaluation report by CNEA.

<u>June 1980</u>

a. Third tranche AID loan and grant disbursed.

b. Recruit and train additional personnel as planned.

<u>August 1980</u>

Fourth project survey by CNEA.

<u>November 1980</u>

a. Fifth project survey by CNEA.

b. Recruit and train additional personnel as planned.

<u>December 1980</u>

Second evaluation report by CNEA.

<u>June 1981</u>

Fourth and last tranche of AID loan and grant disbursed.

<u>August 1981</u>

Sixth project survey by CNEA.

<u>November 1981</u>

Seventh project survey by CNEA.

<u>December 1981</u>

Third evaluation report by CNEA.

August 1982

Final project survey by CNEA.

November 1982

U.S. consultants arrive to assist in final evaluation.

December 1982

a. Final evaluation report by CNEA.

b. U.S. consultant departs after completion of project analysis.

c. 4 year U.S. technicians depart.

C. Evaluation Plan

As mentioned earlier, surveys and evaluations of the project will be made by CNEA on a regular basis beginning November 1978. Copies will be provided for the office of coordination for the project and AID.

The CNEA evaluations will replace the usual 2-year evaluations required by AID. These evaluations will include monitoring and data accumulation activities and will consist of at least the following information:

a. National and Governorate Statistics:

(1) Number of loans made

(2) Amounts of money disbursed

(3) Average size of loans

(4) Number and amounts of loans collected

(5) Number and amounts of delinquent loans

(6) Ageing of delinquencies by CROP HARVEST YEAR

(7) Production increases experienced by farmers as a result of loan

(8) Fluctuations of net incomes by borrowers

(9) Range of farm sizes to loans.

b. Reasons for delinquencies

c. Tenure status of borrowers

d. Effectiveness of SCM as a guarantee organization for small farmers

e. Identifying reasons for delays in loan processing, provision of services and materials

f. Identifying any inequities in eligibility determination of applicants

g. Make random sample interviews with borrowers to obtain their reaction to program and document comments received

h. Identify any impediments to the operation of project

i. Evaluate the general progress of the project and make appropriate recommendations for alleviation of such problems.

D.. Conditions, Covenants and Negotiating Status

Initial Conditions Precedent

Prior to any disbursement, or the issuance of any committment documents under the Project Agreement, the Cooperating Country, except as A.I.D. may otherwise agree in writing, shall furnish in form and substance satisfactory to A.I.D.:

1) Either a request from the Cooperating Country for A.I.D. to procure directly or an executed contract for the services of two technicians and a short-term consultant to advise and assist the Cooperating Country in implementation and evaluation of the Project.

2) The designation of counterparts for the U.S. technicians.

3) A contract with Centre National des Etudes Agricoles to monitor, collect data and evaluate Project performance.

Additional Conditions Precedent

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement to finance any activity other than the technician services referred to in paragraph c. above, the Cooperating Country shall, except as A.I.D. may otherwise agree in writing, furnish in form and substance satisfactory to A.I.D.:

1) Evidence of establishment of a coordinating committee composed of high level representatives of each of the participating Cooperating Country agencies.

2) An agreement or agreements detailing the role and responsibilities of each of the participating agencies.

3) Evidence that the Cooperating Country has provided in its 1978 budget sufficient local currency to finance the first year the costs of staffing, construction of livestock shelters, procurement of vehicles, maintenance capital for the revolving fund, and other Cooperating Country project costs.

4) Detailed procedures for the operation of the Project, including promotional activities, pesticide utilization, applicant selection and eligibility guidelines, credit analyses and farm planning, loan processing, borrower supervision techniques, loan collections, system for reporting and data collections, and systems for monitoring and analyzing field activities.

5) An organization plan evidencing the establishment of regional credit committees in each Regional Commissioner for Agricultural Development unit in each of the five governorates.

6) A phased staffing pattern indicating present and future manpower requirements with assurances that such assignments will be made on a timely basis relative to Project needs.

7) Evidence that principal regional agents and an adequate number of field agents to implement the first phase of the Project have been assigned to each of the five governorates.

8) A completed evaluation plan.

9) A procurement plan and delivery schedule for the vehicles to be provided by the Cooperating Country.

Other Conditions

An interest rate of 6% will be applied to farmer loans during Phase I of the project. The appropriateness of this rate will be re-examined in conjunction with the project evaluation. The results of this evaluation will be taken into account in establishing the rate to be applied to the succeeding phases of the project.

ANNEX B

INITIAL ENVIRONMENTAL EXAMINATION
NARRATIVE DISCUSSION

1. Project Location: Five Northern Governorates of Tunisia

2. Project Title: Small Farmer Supervised Credit

3. Funding (Fiscal Year and Amount): FY 78 - FY 81 $18,207,000

4. Life of Project: 4 years

5. IEE Prepared By: F. J. LeBeau, Agric. Specialist
Private Contractor

6. Action Recommended: Mission recommends a negative determination.

7. Discussion of Major Environmental Relationships of Project Relevant to Attached Impact Identification and Evaluation Form:

The principal changes which the project will bring about in terms of the environment will be (1) more intensive use of land by elimination of traditional fallow; (2) alternations in land use patterns; (3) use of larger amounts of nitrogenous and phosphatic fertilizers; (4) greater use of mechanized equipment in soil preparation and cultivation; and (5) more intensive production of livestock.

The possible significance of each of these changes are as follows:

(1) In lieu of a stubble or uncontrolled fallow, during which period the areas are grazed by cattle and sheep, planting with forage crops - legume species either alone or in combination with small grain - will be practiced. The impact of this change in use will be neutral to slightly beneficial. Grazing of animals on the fallow land during the wet winter months has an adverse effect on soil structure. Planting of forage crops to be harvested from the land will eliminate this adverse factor. Moreover, planting of legume forages will improve the nitrogen content of the soil as well as soil structure due to deeper root penetration.

(2) Rotational patterns of land use will shift. Areas under cereal grains will decrease while areas under legume forages will increase. The impact on the soil should be slightly beneficial as indicated in (1) above.

(3) The projected levels of use of nitrogenous and phosphatic fertilizers are well within levels generally in use in agriculture worldwide and substantially below those commonly used in areas of characteristic high use of fertilizers - areas of very intensive agriculture. The soil types - heavy clays to heavy clay loams - are of such texture and structure as to preclude significant amounts of leaching of applied nutrients into groundwater. The impact on the soil and environment will be negligible.

(4) Greater use of mechanical means for soil preparation and cultivation will replace animal-powered implements. This will permit more rapid and more timely execution of required work. The impact on the soil will be negligible.

(5) More intensive use of livestock will result in slight increase in number, greater selectivity in terms of quality and better nutrition including lot feeding to replace scavenger grazing. The impact on the environment will be negligible.

The socio-economic impact will be of two kinds both of which would be classed as beneficial. Family incomes of farmers would increase. Labor utilization would increase, however, this would take the form of reduced underemployment of farm labor rather than the addition of outside labor. Thus, the project will have no population impact.

A.I.D.'s policies and procedures for herbicides and pesticides are being reviewed and updated. When these policies and procedures are finalized the GOT will be advised by Implementation Letter of A.I.D.'s current regulations. A.I.D. will also provide a consultant to advise and assist the GOT with the selection and utilization of herbicides and pesticides which will be consistent with A.I.D.'s current environmental regulations. The Conditions Precedent will require that A.I.D. have the opportunity to review and approve the GOTs procedures in order to assure these are in accordance with A.I.D. regulations.

ANNEX B

IMPACT IDENTIFICATION AND EVALUATION FORM

Impact Areas and Sub-Areas	Impact Identification and Evaluation 1/
A. Land Use	
1. Changing the character of the land through:	
a. Increasing the population	N
b. Extracting natural resources	N
c. Land clearing	N
d. Changing soil character	N
2. Altering natural defences	N
3. Foreclosing important uses	N
4. Jeopardizing man or his works	N
5. Other factors - None	N
6. Changing land use and production technology	L
B. Water Quality	
1. Physical state of water	N
2. Chemical and biological states	N
3. Ecological balance	N
4. Other factors None	N
C. Atmospheric	
1. Air additives	N
2. Air pollution	N
3. Noise pollution	N
4. Other factors None	N

1/ N - No environmental impact
L - Little environmental impact
M - Moderate environmental impact
H - High environmental impact
U - Unknown environmental impact

ANNEX B

		Impact Identification and Evaluation
D.	Natural Resources	
	1. Diversion, altered use of water	N
	2. Irreversible, inefficient commitments	N
	3. Other factors - None	N
	4. Changing land use	L
E.	Cultural	
	1. Altering physical symbols	N
	2. Dilution of cultural traditions	N
	3. Other factors None	N
F.	Socio-Economic	
	1. Changes in economic/employment patterns	L
	2. Changes in population	N
	3. Changes in cultural patterns	N
	4. Other factors None	N
G.	Health	
	1. Changing a natural environment	N
	2. Eliminating an ecosystem element	N
	3. Other factors None	N
H.	General	
	1. International impacts	N
	2. Controversial impacts	N
	3. Other factors None	N

ANNEX B

I. Other possible Impacts (not listed above)

None

Prepared By: Francis J. LeBeau Date: January, 1977

Project Location: Tunis, Tunisia

Project Title: Small Farmer Supervised Credit

ANNEX C

LOGICAL FRAMEWORK MATRIX

TITLE: Small Farmer Supervised Credit

NUMBER: 664-0302

LIFE OF PROJECT: From FY 1978 to FY 1982

TOTAL US FUNDING: $18,207,000

DATE PREPARED: October 1977

1.a. SECTOR GOAL

To increase basic food agricultural production and improve the income levels of small and medium size farm units.

1.b. MEASURES OF GOAL ACHIEVEMENT

That agricultural production and income levels at the end of five-year period (1978-1982) exceeds that obtained in the project area and by participating farmers prior to project implementation.

1.c. VERIFICATION

A. Loan applications

B. Project records and evaluations

C. Regional/National Income and Production Statistics

1.d. ASSUMPTIONS

That GOT taxation policies and pricing policies in terms of input costs versus prices received for farm produce will continue to be equitable or shift in favor of the producer.

2.a. PROJECT PURPOSE

To provide, through a supervised credit program, access to improved agriculture production inputs and technical information necessary to increase the level of production technology employed by a significantly larger number of small and medium sized farmers than at present.

2.b. END OF PROJECT STATUS

A. All participating farmers in the project area are:

1) receiving assistance in planning individual farm production programs;

2) receiving credit in kind or in cash for production inputs:

3) applying recommended production technology and inputs.

B. Collective production on participating farms exceeds pre-project levels.

C. Spread of improved production technology evident in project area.

2.c. VERIFICATION

A. Loan Applications

B. Project Records and Evaluations

C. Regional/National Income and Production Statistics.

2.d. ASSUMPTIONS

A. That rainfall and weather conditions will be favorable to agricultural production during life of project, i.e., there will be no prolonged drought, floods, etc.

B. That GOT taxation policies, and pricing policies in terms of input costs versus prices received for farm produce, will continue to be equitable or shift in favor of the producer.

C. That recommended inputs and services combined with improved production practices will increase on-farm agricultural production.

D. That demonstration effect will encourage adoption of similar production practices by neighboring farmers.

3.a. OUTPUTS

A. Individual designed farm production plans developed for each participating farmer.

B. Production credit (in-kind and cash or cash equivalent) approved for cooperating farmers.

C. Principal inputs of seeds, fertilizers, and cultivation work amounting to approximately 20,000 MT, 75,000 MY and 2,700,000 hours respectively by the 4th year.

D. Approximately 5,740,000 TD released by the BNT by the 4th year to cover the cost of production inputs.

3.c. VERIFICATION

A. Records of BNT

B. Records of input suppliers

C. Records of local loan committees

D. Records of field technical agents

E. Project records and evaluations

ANNEX C

3.d. ASSUMPTIONS

A. That the GOT will provide adequate equipment, supplies, facilities, and technical support personnel to achieve intended outputs.

B. That the state, parastatal, and private entities will stock and provide adequate and timely inputs to cooperating farmers.

C. That the local credit committees will process all loan requests on a timely and equitable basis.

D. That the BNT will assume and carry out the financial management of the credit fund in a responsible and timely manner.

4.e. INPUTS

A. USAID

1) Technicians

2) Administrative support

3) Short-term seasonal revolving credit fund for lending through the BNT.

4) Medium-term credit for purchase of livestock

B. GOT

1) Technical and administrative central and field personnel of which:

a) 6 Engineers
b) 83 Technicians (field agents)
c) 16 administrative/clerical staff
d) 2[illegible] drivers

2) Facilities, commodities, and logistic support for central and field operations, of which:

a) 31-5 HP automobiles
b) 6 fully equipped offices
c) Maintenance of cars, office, and miscellaneous.

3) Medium-term loan fund for construction of livestock shelters $7,531,000.

4) Administration and management of loan funds through life of Project (BNT).

ANNEX C

5) Provision of required inputs through state and parastatal, or private sources:

a) 20,000 MT - Seeds

b) 75,000 MT - Fertilizers

c) 2,700,000 hours - Custom services

d) 15,000 MT - Cattle feeds

6C(3) - STANDARD ITEM CHECKLIST

Listed below are statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by exclusion (as where certain uses of funds are permitted, but other uses not).

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed?

   Small business will participate in accordance with AID regulations and procedures

2. FAA Sec. 604(a). Will all commodity procurement financed be from the U.S. except as otherwise determined by the President or under delegation from him?

   Yes.

3. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the U.S. on commodities financed?

   The project agreement will so provide.

4. FAA Sec. 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?

   Not applicable. No such procurement is to be financed.

5. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items?

   Yes. However, few if any instances of excess property utilization are anticipated.

6. MMA Sec. 901(b). (a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.

   The project agreement will so provide.

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis? If the facilities of other Federal agencies will be utilized,

   Yes.

are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transport. Fair Competitive Practices Act, 1974 — The project agreement will so provide.

If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?

B. Construction

1. FAA Sec. 601(d). If a capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interest? — Not applicable.

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — Not applicable.

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million? — Not applicable.

C. Other Restrictions

1. FAA Sec. 201(d). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? — Yes, for loan component.

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — Not applicable.

3. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-Bloc countries, contrary to the best interests of the U.S.? — Yes.

4. FAA Sec. 636(i). Is financing not permitted to be used, without waiver, for purchase, long-term lease, or exchange of motor vehicle manufactured outside the U.S. or guaranty of such transaction? — Yes.

5. Will arrangements preclude use of financing:

a. FAA Sec. 114. to pay for performance of abortions or to motivate or coerce persons to practice abortions? — Yes.

b. FAA Sec. 620(g). to compensate owners for expropriated nationalized property? — Yes.

c. FAA Sec. 660. to finance police training or other law enforcement assistance, except for narcotics programs? — Yes.

d. FAA Sec. 662. for CIA activities? — Yes.

e. App. Sec. 103. to pay pensions, etc., for military personnel? — Yes.

f. App. Sec. 106. to pay U.N. assessments? — Yes.

g. App. Sec. 107. to carry out provisions of FAA Sections 209(d) and 251(h)? (transfer to multilateral organization for lending). — Yes.

h. App. Sec. 501. to be used for publicity or propaganda purposes within U.S. not authorized by Congress? — Yes.

(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.

c. FAA Sec. 110(a); Sec. 208(e). Is the recipient country willing to contribute funds to the project, and in what manner has or will it provide assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least-developed" country)?

The country is willing and assurances will be provided in the project agreeme[nt]

d. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing?

Not applicable. Not a capital project.

e. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on; (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy.

The assistance is intended to help meet Tunisia's food needs by providing the small farmer with the necessary credit to increase production.

f. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

The project recognizes that the small farmer is desirous and capable of increased production and that for the small farmer to participate in the agricultural sector, agricultural inputs must be made available on credit to meet demand.

g. FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211(a)(1)-(3) and -(8). Does the activity give reasonable promise of contributing to the development: of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives? And does project paper provide information and conclusion on an activity's economic and technical soundness?	The project has been developed as an integral component of the Tunisian Vth Economic and Social Plan and is pointed directly at those farmers who are at thelow end of the economic and social scales. It has been structured to benefit those small farmers who outside the main stream of agricultural development while while at the same time making an important contribution to much needed increase in cerea. crops and livestock production. The project is based on established technology and will contribute to realizable long-range objective the project paper contains the required economic and technical analyses.
h. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position.	Little if any adverse effects on U.S. economy or balance of payments is anticipated.
2. Development Assistance Project Criteria (Loans only)	Information included in project paper.
a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within U.S.	
b. FAA Sec. 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.	Information included in project paper. Section 3, Project Analyses.
c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?	Yes.-----------------dated--------------1977
d. FAA Sec. 201(f). Does project paper describe how project will promote the country's economic development taking into account the country's human and material resources requirements and relationship between ultimate objectives of the project and overall economic development?	

e. FAA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources?	All loan funds are going to intermediate credit institutions for use by private enterprise.
f. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?	Increased production of cereals and livestock/livestock products resulting from this project will not be exported to the U.S.
3. Project Criteria Solely for Security Supporting Assistance	
FAA Sec. 531. How will this assistance support promote economic or political stability?	Not applicable. Not a SSA project.
4. Additional Criteria for Alliance for Progress	
[Note: Alliance for Progress projects should add the following two items to a project checklist.]	Not applicable. Not an AFP project.
a. FAA Sec. 251(b)(1), -(8). Does assistance take into account principles of the Act of Bogota and the Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America?	
b. FAA Sec. 251(b)(8); 251(h). For loans, has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress (now "CEPCIES," the Permanent Executive Committee of the OAS) in its annual review of national development activities?	

TUNISIA - SMALL FARMER SUPERVISED CREDIT LOAN-GRANT PROJECT NO. 664-0302

6C(2) - PROJECT CHECKLIST

Listed below are, first, statutory criteria applicable generally to projects with FAA funds, and then project criteria applicable to individual fund sources: Development Assistance (with a sub-category for criteria applicable only to loans): and Security Supporting Assistance funds.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT.

1. App. Unnumbered; FAA Sec. 653(b)

   (a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that figure plus 10%)?

   (a) Notification will be provided in accordance with AID procedures.

   (b) Yes.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

   (a) Yes.

   (b) Yes.

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

   No further legislative action is required.

4. FAA Sec. 611(b); App. Sec. 101. If for water or water-related land resource construction, has project met the standards and criteria as per Memorandum of the President dated Sept. 5, 1973 (replaces Memorandum of May 15, 1962; see Fed. Register, Vol 38, No. 174, Part III, Sept. 10, 1973)?

   Not applicable.

FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?

Not applicable.

A.

6. FAA Sec. 209, 619. Is project susceptible of execution as part of regional or multilateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or plans to the maximum extent appropriate?	Project is not susceptible of execution as part of a regional project. No other donor assistance is available. Tunisia is not a newly developed country.
7. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	By supplying credit for agricultural inputs and livestock to the small farmer, the project will foster private initiative in the agricultural sector, strengthen the small farmer, thereby discouraging monopolistic practices and improve the technical efficiency of agriculture.
8. FAA Sec. 601(b). Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	By increasing supply of credit, project will provide small farmers greater accessibility to equipment and technology, including that offered by U.S. private enterprise.
9. FAA Sec. 612(b); Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.	The project agreement will so provide.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency and, if so, what arrangements have been made for its release?	Yes. 612(b) waiver will be requested.

FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions?	The project is aimed directly at increasing local availability of credit for the small farmer. The credit will be used to finance agricultural inputs and livestock for the small farmer thereby increasing production and the spreading of investment to the rural areas.

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b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [include only applicable paragraph -- e.g., a, b, etc. -- which corresponds to source of funds used. If more than one fund source is used for project, include relevant paragraph for each fund source.]

(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;

The project is specifically aimed at increasing the supply of credit available to the small farmer.

(2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor;

(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:

(a) technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

(b) to help alleviate energy problem;

(c) research into, and evaluation of, economic development processes and techniques;

(d) reconstruction after natural or manmade disaster;

(e) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(f) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development

ANNEX E

INTERMEDIATE CREDIT INSTITUTION

"Banque Nationale de Tunisie" (BNT)

Head Office, 19, Avenue de Paris, Tunis

Telex: BANATU 12336

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A. GENERAL BACKGROUND AND ORGANIZATION

The BNT (before 1969 known as the Banque Nationale Agricole - BNA) was established in 1959 as a semi-autonomous organization and absorbed a variety of credit institutions operated by the French. The legal authority for its existance is in the Agricultural Development Act of May 27, 1963, and a protocol agreement, dated November 13, 1963 between the Government and the BNA. Under this arrangement, the BNA was responsible for administering loan and grant funds provided by the state and utilized in coordination with the ministry of agriculture technical divisions in accordance with the first agricultural development plan (1963-1965). Its basic objectives were to consolidate the fragmented agricultural credit resources, give more priority to the banking aspects of agricultural credit and make agricultural credit a more effective tool for the implementation of the agricultural development plan. The government has always owned more than 51% of the BNT stock, either directly or through government-controlled corporations. The BNT is governed by an 11 man board composed of representatives of government, state controlled companies and private citizens. The Board is appointed by the Government and approved by the General Assembly. BNT presently has 33 agencies distributed in the rural areas that are engaged in agricultural loan activities.

The resources of BNT are classified under 2 headings - normal and special. The normal resources which account for $277,352,000 as of 12/31/76 are composed of deposits, capital and free reserves and rediscount privileges from the central bank. Special resources account for $102,200,00 as of 12/31/76 and include external borrowings and managed funds. The managed funds comprise the greatest amount of the special resources and include an agricultural development fund (FOSDA) "Fonds Spécial de Développement de l'Agriculture" and foreign aid. The rediscount limit allowed BNT for 1976 was $68,422,700.

Among the BNT's activities are the usual banking services, provision of supervisory and management assistance to 43 local mutual credit unions "Caisses Locales du Crédit Mutuel" (CLCM) and management of the accounts of about 23 corporations on a flat commission basis.

The equity investments of BNT are mostly in other financial institutions and agroindustries. Its equity portfolio has increased more than 2 times since 1971. Through prudent administration of its own funds BNT has made a respectable profit each year. This has been accomplished in spite of low interest rates because operating costs have been kept low. The recovery record for its own funds are considered reasonable. The repayment rate for BNT's own funds has been in the range of 75-85%. The repayment rate for the special resources category (FOSDA, etc.) was 50-60%.

The accounting system of BNT is computerized and in general is considered satisfactory. The IBRD in recent negotiations with BNT insisted that they improve their external auditing by having an independent auditor. This BNT has agreed to do.

All banks in Tunisia, including BNT, must operate within GOT financial policies administered through the Central Bank of Tunisia. This control is exercised through a variety of ratios to which the banks must conform including solvency and liability ratios. Interest rates on loans and deposits and rediscount ceilings are also controlled by the Central Bank.

B. POLICY, PHILOSOPHY AND METHOD OF OPERATION

The BNT handles almost all government loans to agriculture and it also makes agricultural loans from its own funds. Loans from its own resources are usually short-term, average between 1500 - 2000 TD with interest rates between 7-8%. Loan limits include a minimum size farm of 40 hectares and a minimum loan of 500 TD.

Most loans made from BNT 's own resources require a valid land title of ownership for security. Equipment and crops also serve as security and in many cases crop insurance is required to cover losses from hail and fire. This lending criteria was designed to serve medium and large farmers who have adequate resources to reduce the risk of loss.

BNT officials expressed a willingness to participate in the project and would increase their personnel as needed to handle the banking aspect. The BNT would provide their services on a commission basis which would be negociable when their full responsibilities are delineated. Such charges could be deducted from interest collection and the remaining interest income added to the revolving credit fund.

BNT has had a better record of managing its own funds in comparison to its handling of managed funds. Underlying reasons for this are that the BNT assumes no risk with managed funds and usually has had a limited control over lending criteria and supervision of managed funds. However, there are indications that a clear understanding was not developed in the beginning concerning the responsibilities of BNT.

The BNT is the logical credit institution to participate in this project. It has considerable experience in the agricultural sector and has the resources to meet the project needs.

ANNEX E

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ANNEX E

C. INTEREST RATES

The project proposal establishes a 6% interest rate to the farmer. This is in line with GOT and BNT policy to gradually move away from subsidized interest rates. As of May 1977, all of GOT (FOSDA) funds managed by BNT have been increased to 6% from a variety of rates ranging from 3-5%. BNT lends its own funds for agricultural purposes at 7-8%. Other existing special funds for certain projects such as SIDA continue with original interest rates of 3 to 5%.

The Office of Cereals provides credit to farmers of less than 50 ha. for a fixed amount of seeds and fertilizer per hectare. The farmer pays down 25% of the cost and obtains credit in kind for the balance. The loan is repaid after harvest with a 3% interest rate. It is anticipated that this type of credit will be replaced by this project in its designated areas.

The BNT manages the financial operation of a system of local credit unions, "Caisses Locales de Crédit Mutuel" (CLCM). They were started in 1965 and received seed money from GOT in the beginning and now depend on member share capital and deposits for lending. They are limited to making short-term loans from $125 to $1150 to members at a 7% interest rate. These credit unions have not proved to be effective and have serious collection problems. Underlying reasons include a lack of standard business-like operational procedures to which they should conform. Each credit union operates on its own without any responsibility to a central standard policy. Local politics often interfere with sound operating principles. The BNT provides a business manager for each credit union but has no voice on the union board. BNT also offers rediscount privileges to individual credit unions for selected loans. However, the rediscount rate provides only a 1% interest spread to the union which assumes the risk. A serious weakness in the CLCM system has been the lack of technical assistance in conjunction with their agricultural loans. Local extension personnel have been too few and BNT services have been limited to loan management rather than technical assistance activities.

In summary, although there is an encouraging trend to standardize rates nearer to the real cost of money interest rates for agricultural loans continue to be artificially low.

ANNEX F

NATIONAL CENTER FOR AGRICULTURAL STUDIES (CNEA)

CNEA was established by Law 74-23 March 18, 1974. It operates under the auspices of the Ministry of Agriculture with a semi-autonomous arrangement.

Financially CNEA operates with limited government assistance. The remaining income is derived from charges to customers who utilize its services. It was also assisted in the early phase of operation by an FAO/UNDP project.

It is directed by a General Manager and administered by a council under the chairmanship of the Ministry of Agriculture. Principal objectives are to carry out technical/economic studies for agricultural development projects, either public or private and studies for evaluation of government development policies on different sectors of agriculture. It also helps to train staffs of government officers who are called upon to implement development projects.

The CNEA staff consists of 20 experts of different complementary disciplines including economic and financial analysts, sociologists, and specialists in agronomy, phytopathology, pedology, livestock, hydraulics, and civil engineering.

To date CNEA has completed 13 agricultural development project studies and proposals, including this project. Seven others are presently underway. In addition to these studies it has conducted two seminars on project analyses and is now preparing a third.

With these qualifications and experiences CNEA is the logical organization to undertake the periodic project evaluations mentioned elsewhere (see Annex A).

PERFORMANCE OF A PREVIOUS SMALL FARMER SUPERVISED CREDIT PROJECT IN NORTHERN TUNISIA: The SIDA PROJECT

The action phase of the SIDA project began in the provinces of Jendouba and Le Kef in the Fall, 1973. The SIDA project was seen as an experiment in small farmer supervised credit. It was a means of reaching the traditional small farm sector in northern Tunisia with improved technology following the failure of the collectivization policy in 1969. This project represents an expansion of the SIDA project to all eight provinces in northern Tunisia. Tunisian officials have described it frequently as "le complément du projet SIDA". The two projects share the same target group (small farmers), goals (intensification of cereals and livestock production), and methods (extension, credit, furnishing of purchased inputs by parastatal agencies).

Tunisian and Swedish officials have expressed dissatisfaction with the SIDA project. Some of its results were:

- 53% of the loan fund dispersed to farmers
- 18% of the amount loaned to farmers repaid
- 23% of the farmers participating in the project had from 0 to 10 hectares as opposed to 76% foreseen in the project agreement.

The implementation problems of the SIDA project may be divided into three categories:

Management - The success of the SIDA project depended on coordination with a number of parastatal agencies: Office of Cereals, Banque Nationale de Tunisie, Office de l'Elevage et des Paturages, Cooperative Centrale de Motoculture (now SONAM). The necessary coordination did not materialize. Livestock from OEP was of poor quality. Tractors belonging to COCEMO did not arrive on time. The BNT did not assist the project with loan collection. The SIDA project staff had little control over the supply of inputs on which the success of their project depended. Some of the parastatal agencies are among the most powerful institutions in the Tunisian political system (especially BNT and the Office of Cereals). There had been a failure to reach accords with these agencies regarding their responsibilities towards the project at the project agreement stage.

Acceptance by the Target Population - Many small farmers disliked the centralized farm management decision-making that was implicit in the SIDA project design. Once a farmer enrolled in the project, most management decisions were pre-determined by project technicians and machinery operators from COCEMO. The main controversy between the project and farmers was the degree of intensification of land use. In practice, compromises were made with the farmers' point-of-view. The goal, for example, of eliminating fallow from participating farmers' rotations was not implemented. Nevertheless, the lack of provision for consultation with farmers about land use on their own farms deterred participation in the program. SIDA came by some farmers to be seen as "another cooperative" (as forced collectivization in the 1960s in northern Tunisia).

Resistance by Large Farmers in the Project Area - The SIDA project represented an instrusion by central authority in local arenas of power. It specifically created an alternative for the small farmer not to rent-out his land to a neighboring large farmer due to lack of capital. In northern Tunisia, large farmers are tenants of small farmers (unlike in irrigated areas of Asia where small farmers are the tenants). The original "social goal" of the SIDA project was "to limit the ill effects of land rental" by giving small farmers the means to operate their own land using modern purchased inputs. Implementation of this goal, however, would reduce the supply of rental land for large farm operators, and cause them to loose income. Implementation of the SIDA project was consequently resisted by the large farmers in a number of areas. The large farmers were in a position to effectively oppose project implementation because they occupied positions of local authority (omdahs, or sector chiefs). Since large farmers in northern Tunisia seek to expand the land area which they cultivate, they are opposed in general to programs which give small farmers the means to continue owner-operation. Sometimes the resources of the SIDA project were diverted onto marginal land which the large farmers were not interested in acquiring, but where there was minimal payoff to the use of intensifying inputs.

The implementation problems of the SIDA project suggest the following recommendations:

1. Agreements (conventions) need to be reached with parastatal supplying agencies that they will perform in support of project objectives.

2. Adequate provision needs to be made during project implementation for consultation with farmers regarding their management preferences; inflexible farm management plans should not be imposed even in homogeneous "agroclimatic zones".

3. Adequate supervision is needed to ensure that local authorities (omdahs) act in the best interest of the project, and not out of personal interest (as large farmers) during project implementation.

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT AUTHORIZATION AND REQUEST FOR ALLOTMENT OF FUNDS PART I

1. TRANSACTION CODE: A (A ADD, C CHANGE, D DELETE)

PAF

2. DOCUMENT CODE: 5

3. COUNTRY/ENTITY: TUNISIA

4. DOCUMENT REVISION NUMBER:

5. PROJECT NUMBER (7 digits): 664 0302

6. BUREAU/OFFICE: A. SYMBOL: NE; B. CODE: 03

7. PROJECT TITLE (Maximum 40 characters): Small Farmer Supervised Credit

8. PROJECT APPROVAL DECISION — ACTION TAKEN: A (A APPROVED, D DISAPPROVED, DE DEAUTHORIZED)

9. EST. PERIOD OF IMPLEMENTATION: YRS 04 QTRS 0

10. APPROVED BUDGET AID APPROPRIATED FUNDS ($000)

	A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH CODE C. GRANT	PRIMARY TECH CODE D. LOAN	E. 1ST FY F. GRANT	E. 1ST FY G. LOAN	H. 2ND FY I. GRANT	H. 2ND FY J. LOAN	K. 3RD FY L. GRANT	K. 3RD FY M. LOAN
(1)	FN	140	070	070	514	6,000	225	6,000	168	5,300
(2)										
(3)										
(4)										
				TOTALS	514	6,000	225	6,000	168	5,300

	A. APPROPRIATION	N. 4TH FY O. GRANT	N. 4TH FY P. LOAN	Q. 5TH FY R. GRANT	Q. 5TH FY S. LOAN	LIFE OF PROJECT T. GRANT	LIFE OF PROJECT U. LOAN
(1)						907	17,300
(2)							
(3)							
(4)							
	TOTALS					907	17,300

11. PROJECT FUNDING AUTHORIZED

(ENTER APPROPRIATE CODE(S)) 1 - LIFE OF PROJECT 2 - INCREMENTAL, LIFE OF PROJECT	A. GRANT	B. LOAN
	1	1

PROJECT FUNDING AUTHORIZED THRU FY 81

12. INITIAL PROJECT FUNDING ALLOTMENT REQUESTED ($000)

B. ALLOTMENT REQUEST NO. ________

	A. APPROPRIATION	C. GRANT	D. LOAN
(1)		514	6,000
(2)			
(3)			
(4)			
	TOTALS	514	6,000

13. FUNDS RESERVED FOR ALLOTMENT

TYPED NAME (Chief, SER/FM/FSD)

SIGNATURE

DATE

14. SOURCE/ORIGIN OF GOODS AND SERVICES: [ ] 000 [X] 941 [X] LOCAL [ ] OTHER ________

15. FOR AMENDMENTS, NATURE OF CHANGE PROPOSED

FOR PPC/PIAS USE ONLY	16. AUTHORIZING OFFICE SYMBOL	17. ACTION DATE MM DD YY	18. ACTION REFERENCE (Optional)	ACTION REFERENCE DATE MM DD YY

DRAFT
GC/NE:JMiller:ew
2/16/78

PROJECT AUTHORIZATION

AND REQUEST FOR ALLOTMENT OF FUNDS

PART II

Name of Country: Tunisia

Name of Project: Small Farmer Supervised Credit

Number of Project: 664-0302

Pursuant to Part I, Chapter 1, Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize a Loan and a Grant to Tunisia (the "Cooperating Country") of not to exceed Six Million Five Hundred Fourteen Thousand United States Dollars ($6,514,000) the ("Authorized Amount") to help in financing certain foreign exchange and local currency costs of goods and services required for the project as described in the following paragraph

The project consists of establishing a revolving seasonal credit fund for the procurement of agricultural inputs and a medium-term credit fund for the procurement of improved livestock. The project will also provide supervisory services and technical assistance at the farm level.

Of the Authorized Amount, Six Million dollars ("Loan") will be loaned to the Cooperating Country to assist in financing certain Foreign Exchange and local currency costs of goods and services required for the Project.

I approve the total level of A.I.D. appropriated funding planned for this project of not to exceed Eighteen Million Two Hundred Seven Thousand United States Dollars ($18,207,000), of which $17,300,000 will be Loan funded and $907,000 Grant funded including the funding authorized above, during the period FY 1978 through FY 1981. I approve further increments during that period of funding up to $11,693,000, subject to the availability of funds in accordance with A.I.D. allotment procedures.

I hereby authorize the negotiation and execution of the Project Agreement by the officer to whom such authority has been delegated in accordance with A.I.D. regulations and Delegations of Authority subject to the following essential terms and covenants and major conditions; together with such other terms and conditions as A.I.D. may deem appropriate:

a. Interest Rate and Terms of Repayment

The Cooperating Country shall repay the Loan to A.I.D. in United States Dollars within twenty (20) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in United States Dollars interest from the date of first disbursement of the Loan at the rate of (a) two percent (2%) per annum during the first ten (10) years, and (b) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

b. Source and Origin of Goods and Services

Except for Ocean-Shipping, goods and services financed by A.I.D. under the project shall have their source and origin in the Cooperating Country or in the United States, except as A.I.D. may otherwise agree in writing. Ocean Shipping financed under the Loan shall be procured in any eligible source country except the Cooperating Country.

c. Initial Conditions Precedent

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement, the Cooperating Country, except as A.I.D. may otherwise agree in writing, shall furnish in form and substance satisfactory to A.I.D.:

1) A request from the Cooperating Country for A.I.D. to procure directly the services of two technicians and a short-term consultant to advise and assist the Cooperating Country in implementation and evaluation of the Project.

2) The designation of counterparts for the U.S. technicians.

3) A contract with Centre National des Etudes Agricoles to monitor, collect data and evaluate Project performance.

d. Additional Conditions Precedent.

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement to finance any activity other than the technician services referred to in paragraph c. above, the Cooperating Country shall, except as A.I.D. may otherwise agree in writing, furnish in form and substance satisfactory to A.I.D.:

1) Evidence of establishment of a coordinating committee composed of high level representatives of each of the participating Cooperating Country agencies.

2) An agreement or agreements detailing the role and responsibilities of each of the participating agencies.

3) Detailed procedures for the operation of the Project, including promotional activities, pesticide utilizaton, applicant selection and eligibility guidelines, credit analyses and farm planning, loan processing, borrower supervision techniques, loan collections, system for reporting and data collections, and systems for monitoring and analyzing field activities.

John J. Gilligan

Clearances:
GC:MBall
GC/NE:JMullen
NE/DP:BLangmaid
NE/TECH:WGelabert
NE/CD:STaubenblatt
NE/NENA:JKnoll