

664-0328

OPTIONAL FORM NO. 10  
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GSA FPMR (41 CFR) 101-11.6

UNITED STATES GOVERNMENT

*Memorandum*

UNITED STATES GOVERNMENT

# Memorandum

TO : Mr. Gerald R. Wein, Acting Director

DATE: September 29, 1982

FROM : Frank J. Kerber, Acting Program Officer

SUBJECT: Project Authorization Private Sector Development and  
Technology Transfer (664-0328): A Grant of \$1.5 million

Issue: Your approval is required for a grant of \$1.5 million to the Government of Tunisia from the FY 82 ESF appropriation. The grant is for project 664-0328: Private Sector Development and Technology Transfer.

Discussion: The project is fully described in the project paper and draft project agreement, both of which are attached. The project, through small interventions generally between \$50,000 and \$250,000, will:

- 1) encourage the Tunisian private sector to play a more dynamic role in achieving national economic targets; and
- 2) increase the returns to and/or the continued effectiveness of completed or nearly completed AID projects.

This project will be implemented in coordination with the Directorate of International Cooperation (DCI), Ministry of Plan and Finance. Prior approval for all interventions under this project will be obtained from the Office of the DCI, either formally or informally.

The PID for this project was approved by the Near East Bureau in July 1982. The financial allotment has been received from AID/W.

There are no environmental constraints to project authorization. A discussion of the environmental considerations related to the project was included in the PID approved by AID/W. The Near East Bureau environmental offices had recommended in May, 1982 that a "negative determination" be made.

There are currently no human rights issue constraints to project authorization. Tunisia was not cited for human rights violations in the most recent edition (February 1982) of the "Country Reports on Human Rights Practices," and has not acted inconsistent with the standard in Section 116 of the Foreign Assistance Act of 1961, as amended.



The justification for the use of dollars to purchase local currency in this near-excess currency country is contained in Annex D of the Project Paper, and the related determination is included in the attached authorization.

The Congressional Notification was submitted on September 13, 1982 (State 288646). Notice of the expiration of the waiting period without objection has been received from AID/W.

Authority: You have the authority to authorize this project pursuant to Delegation of Authority No. 113.34.

Recommendation: That you authorize the project by signing the attached project authorization and the PP facesheet.

Attachments:

1. Project Authorization
2. Project Paper
3. Draft Project Agreement

Clearances: CONT:ESHardy (draft)  
RLA:SCarlson (draft)



UNITED STATES OF AMERICA  
AID Mission to Tunisia  
c. o American Embassy  
Tunis, Tunisia

PROJECT AUTHORIZATION

Name of Country: Tunisia Name of Project: Private Sector Development  
and Technology Transfer

Number of Project: 664-0328

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended (the "FAA"), I hereby authorize the Private Sector Development and Technology Transfer project for Tunisia involving planned obligations of One Million Five Hundred Thousand Dollars (\$1,500,000) in grant funds, subject to the availability of funds in accordance with the A.I.D./OYB allotment process, to help in financing foreign exchange and local currency costs for the project.

2. The project consists of technical advisory services, training and observation visits, services and related commodities which will complement existing, or past, A.I.D.-assisted activities or which will constitute new initiatives for the Tunisian private sector.

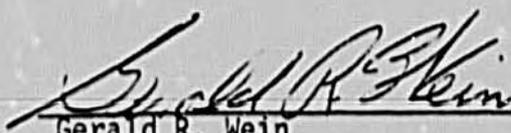
3. The Project Agreement(s) which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and delegations of authority shall be subject to the following essential terms, covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

a. Source and Origin of Goods and Services

Goods and services, except for ocean shipping, financed by A.I.D. shall have their source and origin in the United States or the Cooperating Country, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

4. I hereby determine in accordance with Section 612(b) of the FAA that: (a) the expenditure of United States Dollars for the procurement of goods and services in Tunisia, as authorized above, is required

to fulfill the purposes of this project; (b) the purpose of this project cannot be met effectively through the expenditure of United States-owned local currencies for such procurement; and (c) the administrative official approving local cost vouchers may use this determination as the basis for his certification as required by Section 612(b) of the FAA.



Gerald R. Wein  
Acting Director  
USAID/Tunisia

Sept 29, 1982  
Date

Clearances:

PROG: FJKerber            date             
CONT: ESHardy            date             
RLA: SECarlson            date 9/26/82

<b>AGENCY FOR INTERNATIONAL DEVELOPMENT</b> <b>PROJECT DATA SHEET</b>	<b>1. TRANSACTION CODE</b> <input type="checkbox"/> A = Add <input type="checkbox"/> C = Change <input type="checkbox"/> D = Delete	Amendment Number _____ <b>DOCUMENT CODE</b> 3
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<b>2. COUNTRY/ENTITY</b> TUNISIA	<b>3. PROJECT NUMBER</b> 664-0328
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<b>4. BUREAU/OFFICE</b> NE <span style="margin-left: 100px;"><input type="checkbox"/> 03</span>	<b>5. PROJECT TITLE (maximum 40 characters)</b> <input type="checkbox"/> Private Sector Dev. & Tech. Transfer
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<b>6. PROJECT ASSISTANCE COMPLETION DATE (PACD)</b> MM DD YY 09 30 86	<b>7. ESTIMATED DATE OF OBLIGATION</b> (Under 'B.' below, enter 1, 2, 3, or 4) A. Initial FY <input type="checkbox"/> 8 <input checked="" type="checkbox"/> 2      B. Quarter <input type="checkbox"/> 1 <input checked="" type="checkbox"/> 4      C. Final FY <input type="checkbox"/> 8 <input checked="" type="checkbox"/> 2
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8. COSTS (\$000 OR EQUIVALENT \$1 = )						
A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	1500		1500	1500		1500
(Grant)	( 1500 )		( 1500 )	( 1500 )		( 1500 )
(Loan)	( - )		( - )	( - )		( - )
Other U.S.						
1.						
2.						
Host Country	-	500	500	1500	500	500
Other Donor(s)						
<b>TOTALS</b>	1500	500	2000	1500	500	2000

9. SCHEDULE OF AID FUNDING (\$000)									
A. APPRO-PRILATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ESF	700	84	-		-	1500		1500	-
(2)									
(3)									
(4)									
<b>TOTALS</b>						1500		1500	

<b>10. SECONDARY TECHNICAL CODES (maximum 3 codes of 3 positions each)</b> 920      873      874      900	<b>11. SECONDARY PURPOSE CODE</b> 700
<b>12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)</b> A. Code      PRE B. Amount      1000	

**13. PROJECT PURPOSE (maximum 400 characters)**

This project has two purpose - level objectives: (i) to encourage the Tunisian private sector to play a more dynamic role in achieving national economic targets; (ii) to increase the returns to and/or the continued effectiveness of completed or nearly completed AID projects.

<b>14. SCHEDULED EVALUATIONS</b> Interim    MM YY    MM YY    Final    MM YY 10 84    10 84    09 86	<b>15. SOURCE/ORIGIN OF GOODS AND SERVICES</b> <input checked="" type="checkbox"/> 000 <input type="checkbox"/> M1 <input checked="" type="checkbox"/> Local <input type="checkbox"/> Other (Specify)
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**16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of 1 page PP Amendments)**

<b>17. APPROVED BY</b>	Signature: <i>Gerald R. Main</i> Title: Director (Acting) USAID/Tunis	Date Signed: MM DD YY 09 27 86	<b>18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION</b> MM DD YY
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## Part I : Summary Description of the Project and Recommendation

### A. Summary

This project supports numerous small interventions (e.g. training, seminars, studies - with a limit of approximately \$250,000 each and an average of under \$15,000) selected to best advance the institutional development of private sector entities in Tunisia and/or increase the effectiveness of on-going or past U.S.-assisted activities primarily in the public sector. Individually the interventions are so small that the full scale development of each of them as a separate project would not be cost-effective. Instead a careful set of criteria will be used to screen proposed ideas. The activities financed will be ones in which the U.S. has a comparative advantage (e.g. management education) or a special interest (e.g. training in the special problems of U.S. industrial measures or dimensions). In some cases, the project may finance the extension to Tunisia of a multi-country AID project which otherwise would not cover Tunisia. This project constitutes a new initiative in the private sector to facilitate technology transfer and the development of stronger ties between Tunisian and U.S. economies. It will accomplish the following six outputs:

- (1) Identify constraints to private sector investment in Tunisia;
- (2) Identify private sector investment opportunities;
- (3) Develop a strategy to increase private sector investment;
- (4) Alert businessmen and GOV officials to investment opportunities and expose them to new technologies which can increase productivity;
- (5) Transmit business skills to small enterprises; and
- (6) Enhance completed or nearly completed AID projects in the public sector.

### B. Recommendation

It is recommended that the Director of USAID/Tunis approve ERF grant funding of \$1,500,000 for this project.

Part II: Project Background and Detailed Description  
A. Background (Priority and Relevance)

After twenty-five years, A.I.D.'s bilateral program in Tunisia is phasing out. During that period, the United States Government has financed approximately one billion dollars of economic assistance activities, including PL 480, in Tunisia. The relationship between the two countries is now evolving to a more mature partnership between trading partners. Tunisia is, however, still a developing country, with a current per capita income of approximately \$1,200 per year.

The A.I.D. program has helped Tunisia to develop many important programs and institutions which provide economic and social services. However, some of the A.I.D. assisted programs and institutions are incomplete or have developed weaknesses, and thus are not able to reach their full potential. More specifically, some of the institutions that A.I.D. helped to establish or modernize have not yet reached the level of maturity at which they can not only maintain their levels of service, but adapt to the changing Tunisian environment and improve and expand their services. In many cases a relatively small input of technical assistance, training or commodities will finish, balance and enhance these programs and institutions.

The Tunisian Business School (ISG) for example, lacks sufficient trained staff at this time, despite earlier A.I.D. support. Similarly, water point interventions financed by A.I.D. and executed by CARE and others are jeopardized as a result of inadequate pump maintenance. These and similar situations are described in some detail in recent evaluations of completed projects in management and economic education, agricultural planning and agricultural research.

Another problem affecting development initiatives in Tunisia is the lack of a strong private sector. As noted in a recent NE Bureau report,<sup>1/</sup> Tunisia has been criticized for excessive government control of production and distribution costs and prices, for subsidization and concentration of investment in capital intensive industrial manufacturing activities. Further, there is a notable tendency for private investment to flow into unproductive areas such as real estate instead of areas where Tunisia has a comparative advantage, such as agriculture. There is a need to examine the impact of government policies and laws upon private sector growth.

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<sup>1/</sup> A.I.D. NE Bureau, "Tunisia Private Sector Team Report", April 14, 1982.

While the Trade and Development Program (TDP) has made a substantial contribution to Tunisia, its impact has been limited to a few sectors, notably mining and dairy agriculture, and to activities likely to stimulate U.S. exports or U.S. investments in Tunisia. The success of TDP during the past two years, in fact, underlines the need for another small but broader and more flexible program which will stimulate the indigenous private sector as well as ties with U.S. business.

The Tunisian Government's determination to find ways of addressing these needs was clearly articulated during the recent visit of the Prime Minister, Mr. Izali, to the United States. He stressed the need for activities such as an investment seminar to make better known Tunisia's potential and the degree to which it has accommodated, and will continue to accommodate, the needs of foreign investors.

The recently adopted Sixth National Development Plan (1983-86) also emphasizes the need for the private sector to play a more vigorous role in generating economic growth and new employment opportunities. (See Annex II). Almost 50 percent of investment in manufacturing and 35% of investment in agriculture are expected to come from the private sector during the period of the Plan's implementation.<sup>2/</sup>

The project will thus focus on these two problem areas -- incomplete previous AID-assisted projects primarily in the public sector and a set of policies, programs and institutions inadequate for promoting income and employment generation in the private sector. Since the need for assistance in these areas is believed to be well beyond the financial resources currently available in this project, the GOT and the Mission will establish criteria to ensure the selection of interventions with the highest levels of economic and social benefits.

Two themes cut across and limit the public and private sector areas of focus, and are thus recognized in the selection criteria. These are the development of linkages between Tunisian and U.S. institutions and the development of economic policies which generate or stimulate economic growth. The development of strong Tunisian-U.S. institutional linkages is important in both the public and private sector because such linkages provide a conduit for technology transfer, be it new technical approaches, improved organizational and administrative techniques, or the necessary training to employ them. The creation of hardy institutional linkages to serve as a conduit for the transfer of U.S.

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<sup>2/</sup> GOT Sixth Plan (1982-86), Vol. II.

technology is particularly important now as AID, which has facilitated this flow for 25 years, is phasing out its program in Tunisia.

Experience in implementing the current Science and Technology project (664-0300) demonstrates that both many requirements for and receptivity to the employment of improved technology in Tunisia exist. The cooperative effort between A.I.D. and Tunisia to achieve tangible technology transfers through this project has met with significant success. Some areas of activity have been data processing, pollution control, remote sensing and solar energy. The enthusiasm for this project makes it evident that the demand for additional assistance in obtaining U.S. technology will continue well into the future.

Evidence of the GOT's concern about this problem has been demonstrated in the Sixth Development Plan which places a strong emphasis on technology transfer and the development of institutional ties with developed countries. The Tunisian Government has already embarked on an ambitious program to train hundreds of Tunisian engineers in U.S. universities to facilitate the transfer of technical skills and to develop strong ties with the U.S. engineering community.

The second major theme which cuts across the project's two areas of focus is the need to review the policy framework in which public and private sector investment decisions are made, i.e. the need to constantly review and up-grade economic policies in the light of experience and changing social and economic conditions. While the Tunisian economy has achieved quite acceptable rates of growth in the last decade, this success should not be a cause for complacency. The policies which were effective in generating growth to the current national income level will not necessarily raise the economy to higher levels, particularly as the international economic environment changes.

AID has demonstrated that it can assist Tunisia in the process of reviewing current policies and considering alternatives. AID can finance independent studies, transmit information about experience in other countries, bring experts to Tunisia to provide information and stimulate discussion of alternatives, and finance visits of Tunisian officials to observe the situation in other countries. These and similar activities have permitted

the Mission to participate in a policy dialogue with the GOT which we believe has proven constructive in several important areas, e.g. increased imports of nitrogenous fertilizers, improved distribution of fertilizer through sales by private dealers, slum upgrading rather than slum clearance, decentralized regional planning, etc.

The Near East Bureau Private Sector team made a valuable contribution this Spring in expanding the scope of that dialogue and by identifying areas where U.S. <sup>3/</sup> technology could be particularly useful at this stage. Given the Mission's positive experience in this area and the emphasis now given to the policy dialogue by Agency leadership, priority will be given in reviewing activities proposed for inclusion in this project to those which facilitate the continuation of this important dialogue.

In summary, the project will be directed toward rectifying shortcomings discovered in earlier A.I.D. projects and toward invigorating a rather unenergetic private sector. In choosing from among the large array of possible activities which would contribute to the deviation of these problems, emphasis will be given to those which build durable institutional linkages and those which contribute to a constructive policy dialogue.

This project is consistent with AID/W and USAID policy as expressed in recent policy directives and Small Program Statements (SPS) for Tunisia. It implements the 1982 Policy Paper on the Private Sector and will "assist ... the establishment, improvement and expansion of productive, developmentally desirable private enterprise in priority sectors." <sup>4/</sup> As such, it will increase investment, productivity and employment in the Tunisian private sector.

This project will not extend the life of the USAID Mission beyond its current expiration date (1986), nor will it change the planned personnel strength levels.

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<sup>3/</sup> A.I.D. NE Bureau, "Tunisia Private Sector Team Report", April 14, 1983.

<sup>4/</sup> 1982 PPS Policy Paper, p.3.

B. Project Description

1. Goal, Purpose and Assumptions

a. Goal

The Goal of this project is to increase production and employment in the Tunisian economy, particularly in the private sector.

b. Purpose

This project has two purpose-level objectives: (i) to encourage the Tunisian private sector to play a more dynamic role in achieving national economic targets; and (ii) to increase the returns to and/or the continued effectiveness of completed or nearly completed AID projects.

c. Assumptions

Two key assumptions link the Purpose and the Goal objectives:

(1) that stronger links between Tunisian institutions and those of the U.S. will increase their effectiveness in transmitting technology to Tunisia; and (2) that a stronger private sector will have an impact upon development-related initiatives.

The project further assumes that: (1) the Government of Tunisia is anxious to see an expansion of private sector investment; (2) that the Tunisian economic and political climate will remain attractive to companies and investors; (3) that U.S.-Tunisian policy dialogue will be strengthened as better, more relevant economic analysis is produced; and (4) that the project interventions will address current institutional constraints.

2. Project Components

This project will create and reinforce long-term links between the U.S. and Tunisia for technology transfer through small interventions which will either complement existing or past A.I.D.- assisted activities or which will constitute a new initiative in the private sector to facilitate technology transfer. This project will accomplish the following six outputs:

(i) Identify constraints to investment in Tunisia's private sector

(ii) Identify private sector investment opportunities

- (iii) Develop a strategy to increase investment and increase productivity and employment; identify corresponding actions of public and private sectors;
- (iv) Alert businessmen and GOT officials to investment opportunities and expose them to new technologies which can increase productivity;
- (v) Transmit business skills to small enterprises; and
- (vi) Enhance completed or nearly completed AID projects in the public sector.

This project will establish a framework and a flexible mechanism to appraise and select among numerous proposed small aid interventions (e.g. training, seminars, studies) those which would best advance U.S.-Tunisian institutions. Emphasis will be on reinforcing and building upon activities already in USAID/Tunisia's investment portfolio. The activities financed will be ones in which the U.S. has a comparative advantage (e.g. management education) or a special interest (e.g. training in the special problems of U.S. industrial measures or dimensions). In some cases, the project may finance the "buying in" by Tunisia into a centrally-funded A.I.D. project which otherwise would not cover Tunisia.

Simplicity, small size, and the relatively low cost of the activities to be financed under the project (the largest approximately \$250,00 and averaging under \$125,000), are why their careful examination and advance planning generally can rest on previously approved sets of criteria. Activities financed will have their genesis in an interactive USAID/GOT process. An individual activity to be eligible for financing under this project will have to meet certain criteria, although it will not have to meet all of them since to some extent they are substitutable. They include the following:

- A. Criteria, generally at least two of which must be met (one of which must be either No.1 or No.2):
  1. The activity promotes private sector development in Tunisia.
  2. The activity enhances or complements an existing or completed USAID project activity.
  3. The activity helps build links between U.S. and Tunisian institutions.

4. The activity contributes to a better understanding within the GOT of the impact of alternative economic policies on the achievement of goals identified in Tunisia's Vth National Development Plan.
- E. All of the following criteria will be applied to all interventions:
1. The activity requires less than \$250,000 of U.S. funding from the project.
  2. All project assistance will be delivered by September 30, 1986.
  3. USAID involvement in the activity will not require any additional USAID staff to manage, monitor or service.
  4. A complete plan for the provision, use and delivery of U.S. assistance to the activity exists.
  5. A plan for continuation or maintenance of any activity, if appropriate, has been agreed upon with the cooperating institution.
  6. A.I.D. funding of the activity will not reduce the counterpart contributions for the sum of all activities approved for funding under the project to less than 25%.
  7. Alternative funding is not available.

The USAID staff responsible for implementing the Project will consist of the Deputy Director (project manager), the Controller, the Program Officer and such technical USAID staff as may be needed to undertake a particular intervention. It is anticipated that a Joint Career Corps (JCC) attorney will be assigned to Tunisia in mid-FY 83 who will be responsible for the development and implementation of project activities in the private sector. The Mission is already in the process of contacting several parastatal agencies, private companies and banking groups to solicit their reaction to this project proposal and their views as to how the project might best generate investment and employment in the Tunisian private sector. The reaction to date has been highly favorable. This first stage will be completed by a TDY attorney who will visit Tunisia in November of this year. He will formulate at that time a plan of action for the project. The actual implementation of most of the private sector interventions will be undertaken after the arrival of the JCC attorney in the Spring of 1983. The USAID staff will also be assisted by the Regional Legal Advisor and the Regional Contracts Officer (both to be stationed in Rabat) on a TDY and telephone/cable basis.

Examples of the kind of activities USAID expects the project to help are given below. This list of examples is not exhaustive and is subject to change after further analysis and development. The Project Agreement will establish a mechanism for quick USAID/GOT review of project proposals. It will be a flexible program able to move quickly to meet opportunities for crucial assistance to the growth of the indigenous Tunisian private sector or growing U.S./Tunisian institutional ties.

Approximately \$1 million of the U.S. contribution to this project will be directed at encouraging the development of the Tunisian private sector and approximately \$500,000 will be utilized to strengthen current or past A.I.D.-assisted projects. The examples below are divided into these two categories:

### 3. Possible Interventions Under the Project

#### a. Promotion of Tunisian Private Sector

##### Private Sector Cooperation

Responsible U.S. businesses are increasingly making their expertise, in the form of the services of technical experts, available free to developing countries. Under its Pollution Control sub-project No. 664-0300 5, USAID has been able to make the services of air quality engineers, sanitation and water quality engineers, and pesticide experts from major American chemical firms available to Tunisia. The Mission believes that experts could also be made available without charge in such fields as systems management, quality control, and administrative planning if the experts' travel and per diem costs can be provided.

Like most developing countries, Tunisia lacks a mechanism for identifying available experts for quickly providing funds to cover the travel and lodging expenses and for making all of the necessary preparations. Under this intervention, AID would utilize its "good offices" and funding to make available experts in economic policy studies, marketing and other fields. This project activity will enable Tunisia to take advantage of these technology transfer opportunities within the narrow time windows during which U.S. corporate experts are available.

### Investment Seminar

A major opportunity exists to advance Tunisian development and foster links with U.S. businesses through the sponsorship of a study of the Tunisian investment environment from the point of view of U.S. investors and a subsequent investment seminar. The study and seminar would provide information to American firms on Tunisian commercial and investment potential and would provide information to Tunisian entities on the factors which inhibit U.S. investment. The seminar could be coordinated with OPIC initiatives and focus on specific sectors of mutual interest and on actions required to generate U.S. business participation. An initiative of this type was proposed by the Tunisian Investment Promotion Agency (API) on April 28, 1982 (see State 124145, Annex G).

### Brand Development

Tunisia has a comparative advantage in agriculture, particularly in citrus products and in selected vegetable products. They are of excellent quality, and there is a high level of demand for these products close at hand in the European market. However, because Tunisian citrus and vegetable products have not developed a widespread reputation among consumers for consistency and excellence, they have not achieved a satisfactory penetration of the European market. Technical assistance could be provided to the GOT to establish a standards agency with the authority to establish and dispense a government brand name for agricultural exports. The objective would be to improve quality control and promote a Tunisian government brand so as to improve the prices paid for Tunisian products and their acceptance in the European agricultural market. Short-term technical assistance might be provided by U.S. experts through the International Executive Service Corps (IESC) or other organizations.

### Chamber of Commerce

Tunisian businessmen have expressed an interest in assistance to the Chamber of Commerce to provide a forum for young entrepreneurs to discuss the problems and needs of the Tunisian private sector. The Chamber of Commerce might serve as a vehicle through which young Tunisian businessmen could communicate with the GOT concerning the needs and problems of the Tunisian private sector. Information and technical assistance from the U.S. Chamber of Commerce and/or other groups might be provided.

### Increased IESC Role

The IESC provides technical assistance through retired private sector managers and technicians. It is not currently active in Tunisia, but may be able to provide assistance, particularly in support of industrial and agribusiness firms. An agreement with IESC could provide such assistance.

### b. Enhancement of A.I.D. Assisted Projects

#### Hospital Administration and Facility Design Training

USAID is currently implementing a rural primary health care project in four governorates in support of the GOT's nationwide program to develop a workable health care delivery system to service the rural and urban poor. Among problems identified by our existing Rural Community Health Project and the World Bank's parallel project in northwest Tunisia are: (1) the growing proportion of budgetary resources devoted to the hospital sector and the inefficient use of these resources within that sector to the detriment of primary health care; and (2) inappropriate design of hospital facilities resulting in excessive needs for personnel, time and resources to provide services. The negative effect of the excessive budgetary and personnel requirements of the hospital sector could be significantly mitigated by the provision of TA and training assistance in hospital facility management and facility design. Both are areas in which training has been repeatedly requested by the GOT and in which assistance would pay significant dividends in enhancing our efforts in primary health care.

#### Maintenance of Independent Rural Water Points

A continuing problem is lack of appreciation of the need for providing for systematic maintenance of investments in scattered rural water interventions, many of which have been financed by A.I.D. A number of short workshops in Tunisia, plus provision of certain tools special to the proprietary U.S. equipment now installed may prove instrumental in meeting the problem. Large sums are not needed, but certain minimum foreign exchange expenditures are. A relatively small foreign exchange expenditure would aim at introducing responsible Tunisian officials to the latest and most appropriate ways and systems to maintain such equipment, as well as help to internalize among these officials and their superiors the need to do so.

### Management Education

The Institute of Advanced Management (ISG) was successfully established under a now-completed AID project. Although it has already made impressive contributions to the evolution of the Tunisian economy, it is experiencing a shortage of well-trained faculty members. Further, its ties to U.S. counterpart institutions and the professional milieu in the U.S. which sets the standard for such schools are very limited. Contact between the Tunisian professional management community and the U.S. professional management network now exists only on a sporadic basis.

Given that the ISG is not yet ready to offer the diverse and sophisticated coursework available in U.S. Ph.D. programs, the ISG proposes to create a type of "joint degree program" (even though the degree may only be awarded by the ISG) under which Ph.D. level coursework would be done mostly in the U.S. and thesis research would be performed in Tunisia under joint U.S.-Tunisian supervision. The ISG is prepared to finance the costs of the training in the U.S. Under this project, AID would fund short-term consultancies to the ISG by U.S. professors who would participate in the supervision of selected ISG students' research as well as give short faculty, post-doctoral and graduate seminars and workshops. AID might also finance the acquisition of relevant U.S. professional journals and institutional memberships (for the ISG) in U.S. management education societies. These activities would help the ISG to achieve the quality faculty and research that it seeks while simultaneously increasing ISG's linkages with U.S. education institutions.

### Scientific and Technical Documentation Center

The S & T Documentation Center, housed within the Ministry of Higher Education and Scientific Research (MHESR) in Tunis, was created in 1980 to serve the following purposes:

- To collect the documents necessary for scientific research and advanced studies in the universities and ministries;
- To lead research in information science to meet the needs of efficient technology transfer;
- To facilitate coordination of activities in scientific and technical documentation in higher education; and

To locate and publish the works, research and major writings of Tunisian students and faculty at home and abroad which will enhance advanced student research in Tunisia.

The Documentation Center needs trained personnel to operate microfilm, microfiche, and other information retrieval machines and to provide reference research services. Another need is to complete the acquisition of computer hardware.

Through training and assistance in commodity procurement, this activity would support an advanced technology transfer - improved access to U.S. publications, research and theoretical developments in engineering and related fields. It would complement activities undertaken in the Science and Technology Project (664-0300) as well as the Technology Transfer Project (664-0315).

Part III - Project Analysis

A. Administrative Analysis

1. Project Administration (USAID)

As outlined in the Project Description, Project funds will be sub-obligated for small aid interventions that will probably not exceed \$250,000 and are likely to average under \$125,000 each. The interventions will be undertaken only after consultation with the relevant GOT officials, principally those in the Ministry of Plan and Finance.

All interventions will be planned in a manner commensurate with their size and complexity. For interventions which exceed \$100,00, USAID/Tunisia will undertake particularly careful planning and analysis. Such interventions will be approved only upon the submittal of a formal memorandum to the Mission Director, outlining the nature of the intervention and how it will be executed.

The USAID staff responsible for implementing the Project will consist of the Deputy Director (project manager), the Controller, the Program Officer and such technical USAID staff as may be needed to undertake a particular intervention. It is anticipated that a Joint Career Corps (JCC) attorney will be assigned to Tunisia in mid-FY 83 who will be responsible for a large amount of project activities. The USAID staff will be assisted by the Regional Legal Advisor and the Regional Contracts Officer (both stationed in Rabat) on a TDY and telephone/cable basis.

USAID/Tunisia has technical specialists in Housing and Urban Planning, Health, Energy and Technology, Agriculture, Rural Development, Economics and Financial Analysis, as well as the usual Program Office experience and expertise in project design, participant training and A.I.D. policy. It can also draw on the expertise of personnel in the overall U.S. Mission.

USAID staff currently have substantial experience in managing small interventions of this type, and various successful documentation models are available in the Mission for reference purposes. The Science and Technology project (68-0340), for example, is largely organized as a series of small interventions in transferring technology to Tunisia. The staff should be quite capable of administering the Project.

BEST AVAILABLE DOCUMENT

With the arrival of the JCC attorney in mid-FY 83, and during a proposed TDY in mid-November 1982, substantial work can begin to develop a detailed framework for the private sector interventions. Such development would include a review of Tunisian investment and related laws, the identification of legal, governmental and other constraints affecting the private sector and an evaluation of needs for additional trained Tunisian personnel in private sector-related institutions.

There is currently no evident conflict between the schedule for phasing out Mission staff and the USAID's continued capacity to manage the Project -- particularly as the bulk of interventions are likely to get underway during FY 1983. Moreover, few of the interventions will be entirely new, in that they will be complementary to existing or past initiatives. Interventions will also be selected, in part, on the basis of their administrative feasibility. (See criteria list in Project Description, Part II.2.)

USAID/Tunisia expects that some of the interventions will be implemented with the assistance of AID/W. This will take the form, for example, of the utilization of AID/W personnel on a TDY basis from time to time and of existing centrally funded activities to support the Project interventions. The S & T Bureau may also be called upon to assist with international training, through the mechanism of PIO/P's issued to the Office of International Training.

USAID/Tunisia will rely on private sector entities, as appropriate, to assist with project implementation. It is expected, of course, that many of the interventions themselves will consist of contracts with U.S. or Tunisian private companies or individuals. As for administration, USAID/Tunisia may contract out for services such as participant training on an ITC or similar basis.

### 2. Project Administration (GOT)

The principal cooperating agency in the Government of Tunisia will be the General Directorate for International Cooperation (GCI) within the Ministry of Plan and Finance. That office will be responsible for financial cooperation and overall monitoring of project activity for Tunisia. Other Ministries (e.g., Higher Education and Scientific Research, Health, Agriculture and National Economy) and semi-independent agencies (such as, possibly, COMISE CTDA, API) will be responsible for implementation. In many cases, USAID has had experience dealing with these

organizations. Many of the activities to be funded by the project will arise directly from our experience and operational relationships with these organizations gained in carrying out projects which the new activities funded under this project are designed to enhance. Implementation of project activities should thus be timely and efficient. The cooperating organizations already have the capability to move quickly to use the experts, training, and other inputs we provide.

Discussions with the Ministry of Plan and Finance regarding implementation of the project have focused on the need for flexibility and quick response. It has been agreed that the USAID will perform the preliminary identification and screening of project activities, the latter by applying the criteria contained in Part II.B, Project Description. However, no initiative (whether in the private or public sector) will be taken without the approval of the General Directorate for International Cooperation. For small interventions (under \$10,000), this approval process might take the form of a telephone call and a short memorandum of conversation; for larger interventions (up to \$100,000) an exchange of letters, and for the largest activities (up to \$250,000), a formal request with supporting documentation.

These activities undertaken in support of current or past A.I.D. assisted projects will, of course, require the approval of the cooperating agency or organization as well as that of the DCI's Office.

### B. Social Analysis

#### Impact

For those activities aimed at complementing on going or past A.I.D. assisted projects, the impact of this project will, of course, be as far-reaching as the original projects themselves. As indicated above, each intervention will be screened to assure that the original project objectives and beneficiaries will be promoted by the new intervention.

For those activities dealing with the development of the private sector in Tunisia, the intended impact of this project is increased private sector investment, employment and productivity. The project will work through professional groups of producers, COT and parastatal investment promotion agencies, and perhaps firms that share common supply, production or marketing problems. The COT recognizes, in its Vth Five Year Development Plan

(1982-86), the need for the promotion and expansion of the Tunisian private sector (See Annex H). Thus, the attitudes of key government officials and organizations should be conducive to project-assisted efforts to stimulate the growth of the private sector.

Despite this favorable environment for private sector development at the official level, the project's efforts to encourage private initiative will need to contend with widely-held attitudes of dependence upon government. Most Tunisians expect the government to provide employment as well as numerous government subsidies. Subsidies drain resources which could otherwise be devoted to expanding economic infrastructure and social services. Even those already engaged in private sector activities often expect protection from competition, low interest rates and other forms of subsidy.

These attitudes may provide an obstacle to this project's objective of creating a more vigorous private sector. Project staff will need to be mindful of this constraint so as to take advantage of opportunities to expose Tunisians to alternative approaches. For example, in conducting studies and training activities and in discussions of policy alternatives, an effort will be made to analyze objectively the policies and programs which foster these attitudes and to assess their impact on development. In this way, the experience should help us to better understand these problems with the objective of bringing about improved collaboration between the government and the private sector.

With regard to Women in Development, it is expected that the experience gained during this project will strengthen the Mission ability to predict and better understand the role of women in the Tunisian private sector. Particular attention will be given to those proposals having a "women in development" orientation.

### C. Economic Analysis

This project does not lend itself to the traditional type of economic analysis included in AID project papers. An IRR or cost/benefit analysis is impossible for obvious reasons. A cost effectiveness analysis in the normal sense is also inappropriate in that the detailed planning of activities has not and cannot be carried out at this time. This project may be seen, however, as a cost-effective approach to providing development assistance in a country where development assistance is being phased out.

Private enterprise is beginning to play an increasingly important role in the Tunisian economy. This project, by providing U.S. technology and management expertise in this sector, can serve a catalytic function. AID funds are not generally intended in this project to be used for directly productive investments. Rather they will be used to identify investment opportunities and relieve constraints to increased investment by the private sector. They therefore will have an "accelerator" effect on the development process, enabling the private sector to make effective investments and participate more fully in the Tunisian economy.

In the public sector, there currently exist in Tunisia numerous opportunities where a relatively small donor investment can be expected to have a substantial benefit. Many of these public sector opportunities are a result of previous AID projects which have been "completed" in the sense that their objectives (at the "purpose-level") had been achieved. However, the assumption that the host country could carry on from that point, irregardless of a rapidly changing environment, alternative demands for resources, the availability of new technologies, etc. was overly ambitious. In many of these projects, a small investment at this time can ensure a relatively sharp increase in the benefit stream from previous institutional development activities. The additional support for the School for Advanced Management (See Section III.4.3) is a good example of this. Likewise, capping off previous capital investment activities such as the "Well/Pump" projects by assisting in the development of a maintenance capability will add dramatically to the economic and social returns that can be expected from these investments.

Proposed project interventions should generate unusually large economic benefit from relatively small investments. To ensure that these potential benefits become a reality, the Mission will consider the extent and distribution of benefits before approving individual sub-projects.

#### D. Other Donors

The closest analogues to this project among the portfolios of the other donors to Tunisia are a Canadian International Development Agency (CIDA) program, a Swedish International Development Agency (SIDA) program, a proposed World Bank project and certain aspects of the UNDP program. They, however, cannot (and do not wish to) achieve the objectives of this program with respect to the strengthening of other A.I.D. projects and stronger links with the United States and the encouragement of the Tunisian private sector.

#### CIDA

The Canadian International Development Agency (CIDA) is providing technical and financial assistance to develop the industrial sector in Tunisia. The project serves to provide technical and practical information to both Canadian and Tunisian private enterprises regarding possibilities of mutual cooperation aimed at the creation of joint ventures in Tunisia.

This research and development project with funding limited to \$250,000 per activity, covers the following costs:

- Research, analysis and collection of technical and specialized data.
- Studies on identification of new projects in order to establish a link between Canadian capabilities and existing possibilities in developing countries, and vice versa.
- Organization of seminars, workshops and meetings on investment promotion and technology transfer.
- Exchange of visits between Canadian and local investors/promoters.

The project duration should not be less than five years. In order to promote Canadian investment in Tunisia and attract Canadian investors and stimulate technology transfer efforts, CIDA's contribution to develop these activities is on a grant basis. Canadian private enterprises will be reimbursed by CIDA for actual expenses including travel, per diem and project-related support costs. With regard to renewable energy projects, CIDA's contribution includes the total costs for equipment in addition to the \$250,000 amount limited for project design and development. CIDA is now working on the development of a \$5.6 million credit program with a local bank to help Canadian investors financing projects in Tunisia. CIDA is encountering difficulties in attracting Canadian investors in Tunisia. Of the 1000 studies conducted to date, only 40 have led conclusively to the establishment of joint ventures.

### SIDA

With the planned phase out of the Swedish International Development Agency Program, a general technical assistance project was developed in 1976 to help the GOT in carrying out research, studies, design and development of new projects. Most of these studies and research activities are undertaken by Swedish firms to open new markets for exporting Swedish equipment. These project activities, which normally involve small amounts of money, are approved on a case by case basis, without prior planning and based on requests for assistance from the Ministry of Foreign Affairs. These requests/proposals are presented and discussed during the regular joint commission meetings with the Ministry of Foreign Affairs.

Up to now almost 40 project studies have been developed, including procurement of equipment in the fields of fishing, potable water and fruit and vegetable export. There is no funding limit for each activity. Program funds, generally consisting of small amounts, are mostly used to foster contacts between local promoters and Swedish firms in the field of social, cultural and commercial activities. A Swedish advisor at the GOT Investment Promotion Agency ("API") is helping in the coordination of project activities.

A separate fund called the "Swedish Fund" is used to promote private investment in Tunisia in the industrial field through the creation of joint ventures between Swedish and local firms. This Fund serves to finance the following:

- Establishing contacts between local and Swedish firms.
- Elaboration of project designs and pre-feasibility studies.
- Assistance in the creation of joint ventures and provision of medium-term loans and guaranty support during the execution of projects.

### World Bank

The IBRD is currently negotiating with the GOT a \$6 million loan for a general technical assistance project. The project will increase the number and improve the quality of investment projects, strengthen local project preparation capabilities, provide a base for policy formulation, and reinforce existing institutions in agriculture, industry, export and energy. It consists of feasibility and other studies and the provision of related equipment in the above sectors.

## Part IV : Implementation Planning

### A. Project Evaluation

The project will be evaluated annually in-house (with AID/W assistance as necessary) beginning a year after its obligation, until project funds are depleted. Given the small total value of this project (\$1.5 million) and the large apparent demand upon its resources, it is unlikely the project will last much beyond FY 84. If additional tranches of ESF funding are committed to this project in FY 83 and FY 84 (as discussed on page 1 of the Tunisia FY 84 ADS), an evaluation would be scheduled before a decision to increase funding is made.

### Evaluation Criteria

The success of the project will be judged along two major dimensions: (a) The efficiency of the project will be seen in whether or not contributions have been made on schedule, technicians arrived when needed, resources have been properly managed, selection criteria are adequate or need refinement, project funds have been drawn in a timely manner, ... poor proposals rejected for funding, etc. The evaluation criteria to be applied here focus on whether or not project inputs have been adequate and have been supplied in a timely manner.

(b) The effectiveness of the project will be determined on the basis of responses to the following types of questions:

In the case of interventions on-going at the time of evaluation, should these interventions be continued as they are currently scheduled or should they be altered in some way? If there have been unsuccessful project interventions, how can the approval process and criteria be tightened so as to increase the chances of success? The evaluation will recommend corrective steps or termination of ineffectual project elements.

### B. Financial Plan

#### U.S. Contribution

The USAID proposes using \$1.5 million for the purpose of financing consulting services, training and commodities in increments of between 750,000 and \$250,000. In the FY 84 ADS it is anticipated that approximately \$100,000 will be expended in FY 83. Of the balance, it is expected that approximately \$600,000 will be expended in FY 84 and approximately \$500,000 in FY 85. We thus anticipate project activities to be completed well before

September 1986 (the PACD) and disbursements by the end of CY 86.

GOT Contribution

The problem of sustained cooperating country financed support for the activities to be financed under this proposed project does not arise as sharply as in the usual A.I.D. project. The Institutions or the operations to be helped will normally have been established and working. In any case, written assurances will be obtained with respect to Tunisian contributions to the project and to the continued maintenance of activities financed by the project where appropriate. To assure that in no case the Tunisian contribution falls below 25% of the cost of the activities assisted by the project, no activity will be approved for financing by the project if doing so would bring the Tunisian life of project contribution below 25%.

PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

Life of Project:  
From FY 82 to FY 86  
Total U.S. Funding \$1.5 M.  
Date Prepared: 9/82

ANNEX A

Support to Tunisia Private Sector Development & Technology Transfer (664-0328)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program Sector Goal: The success objective to which the project contributes:</p> <p>Increased production and employment in the Tunisian economy, particularly in the private sector.</p>	<p>Measures of Goal Achievement:</p> <p>1. Targets set by GOT's Vith Plan are met by 1985.</p>	<p>1. GOT Reports, including Vith Plan (1987-91).</p> <p>2. Evaluation of project.</p>	<p>Assumptions for achieving goal targets:</p> <p>1. Stronger links between Tunisian institutions &amp; those of the U.S. will increase their effectiveness.</p> <p>2. A stronger private sector will have an impact upon development-related initiatives.</p>
<p>Project Purpose:</p> <p>1. Encourage the Tunisian private sector to play a more dynamic role in achieving national economic targets; and</p> <p>2. Increase the returns to and/or the continued effectiveness of completed or nearly completed AID projects.</p>	<p>Conditions that will indicate purpose has been achieved. End of project status.</p> <p>1. Increase in private sector investment (e.g. agriculture, industry, etc.)</p> <p>2. a. Higher achievement of purpose-level indicators specified on L.F. of affected projects</p> <p>b. USAID policy dialogues with the GOT are continued, improved and expanded.</p> <p>c. Number and quality of institutional links between U.S./Tunisian increased.</p>	<p>1. Government statistics.</p> <p>2. a. L.F. of relevant projects</p> <p>b. USAID Mission staff consensus.</p> <p>c. USAID/ECON assessment.</p>	<p>Assumptions for achieving purpose:</p> <p>1. Providing more frequent contacts will strengthen U.S.-Tunisian technology links;</p> <p>2. that the Government of Tunisia is anxious to see an expansion of private sector investment;</p> <p>3. that the Tunisian economic and political climate will remain attractive to companies and investors (e.g. in agriculture);</p> <p>4. that U.S.-Tunisian policy dialogue (e.g. in agriculture) will be strengthened as better, more relevant economic analysis is produced.</p>
<p>Outputs:</p> <p>1. Constraints to investment in Tunisian private sector identified.</p> <p>2. Investment opportunities identified;</p> <p>3. Strategy developed to increase investment and increase productivity and employment; appropriate actions of public and private sector identified;</p> <p>4. Recommended and GOT officials alerted to investment opportunities and exposed to new technologies which can increase productivity.</p>	<p>Magnitude of Outputs:</p> <p>To be determined during life of project.</p>	<p>In-house evaluations schedules for September 1983, 1984 and 1985.</p>	<p>Assumptions for achieving outputs:</p> <p>GOT remains committed throughout the Vith Plan to the improvement of the Tunisian private sector.</p>
<p>Inputs:</p> <p>3 weeks business skills acquired by small enterprises; and</p> <p>6. Small interventions code to enhance completed or nearly completed AID projects.</p>	<p>Implementation Target (Type and Quantity)</p> <p>U.S. contribution:</p> <p>\$1.5 million (ESF grant) Tunisian contribution:</p> <p>1.5 million (local &amp; foreign currency &amp; in kind)</p> <p>Any one activity may be a mixture of these inputs but not totalling more than \$250,000 for any one activity.</p>	<p>1. Project files.</p> <p>2. Contracts.</p> <p>3. Field visits.</p> <p>4. PIO's issued.</p> <p>5. GOT Reports on GOT contributions.</p>	<p>Assumptions for providing inputs:</p> <p>Parastatal and private institutions to be assisted by the project are willing/able to contribute 25% share to initiatives undertaken.</p>

ANNEX B

EXCERPTS

TUNISIA

PRIVATE SECTOR TEAM REPORT

April 14, 1982

## II. THE TUNISIAN INVESTMENT CLIMATE

### A. ECONOMIC FACTORS

The investment climate for private sector development in Tunisia is perceived by both the local and foreign investment community as good to excellent.

Tunisia's economic performance has been excellent by all measurements. Real GDP between 1970 and 1979 has more than doubled averaging an annual real rate of growth of over 7 percent. This has been attributed to the excellent management of the economy by the GOT and to favorable external factors such as favorable prices for oil, phosphate and bumper agricultural export crops. Except for employment generation, the objectives of the Fifth Development Plan (1977-81) are expected to have a good chance of being met. However, Tunisia has been criticized for excessive government control of production and distribution costs and prices, subsidization and concentration of investment in capital intensive industrial manufacturing activities while experiencing severe unemployment problems. These policies are likely to continue but on a modified basis as the objectives of the GOT's Sixth Development Plan are to: (1) ensure continued social stability by improving the overall standard of living and by distributing more efficiently the nation's wealth; (2) resolve the persistent unemployment problem; and (3) reduce dependence on external financing sources to ensure Tunisia's financial independence. To achieve its development objectives, the GOT indicates a desire for private sector investment to generate a greater share of total investment. The plan's guidelines (which are, on this point, vague) call for financial, administrative and fiscal reforms to stimulate the increase in investment.

### B. CAPITAL AVAILABILITY

There is no shortage of capital for private sector investment in Tunisia. Three joint Tunisian - Arab development banks were founded in 1981 with a total indicated capitalization of \$600 million (However, their paid-in capital is reportedly fractional at this time). This includes the Tunisian-Kuwait Development Bank; Tunisian-Saudi Development Bank; and the Tunisian-Algerian Development Bank. At least two more development banks are expected to be established in 1982, one with the United Arab Emirates and the other with Qatar. With the initiation of these banks, which can invest and lend to both public and private sector projects and provide for syndications, total capitalization is targeted to increase to approximately \$1 billion. This combined with commercial and development bank lending should provide Tunisia with sufficient capital for productive investment in the near term.

### C. INVESTMENT INCENTIVES

Favorable investment incentives have been primarily focused toward foreign investment. The investment laws promulgated to date are designed to encourage foreign investment either on a total foreign ownership basis or a joint venture basis with partial Tunisian participation. The principal laws are Law 72-38, which applies to businesses producing solely or partially for export; Law 74-74, which applies to businesses producing for the domestic marketing; Law 76-63, which permits the establishment of off shore banking units; and Law 81-56, which applies to businesses producing for the domestic market, but in accordance with the GOT's industrial decentralization policy. The Investment Promotion Agency, established in 1973, is responsible for the approval of local and foreign private investment projects, administration of the various foreign investment laws, and promotion of local and foreign investment in Tunisia.

### III. STATE OF THE TUNISIAN PRIVATE SECTOR

#### A. LOCAL PRIVATE SECTOR

Tunisia is a mixed economy where public and private sector operate side by side. At times the distinction between public and private sector entities in Tunisia is not easily determined as the line is less strictly drawn than in the U.S. In many instances there is joint public and private ownership of enterprises (i.e. Tourism). As a result, true local private investment is difficult to measure. In other instances, we do know that most trade and service enterprises are in the local private sector as is a substantial amount of light industrial activity (i.e. construction materials, chemicals, textiles, shoes, plastics, etc.), agri-business, and construction. Large, heavy industry is the province of the public sector (i.e. petroleum, mining, cement, etc.). In some instances wholly privately owned companies do compete with public sector enterprises and excel in performance and profitability (i.e., brick manufacturing, etc.). It is also the GOT's policy to initiate investment in those sectors in which the private sector will not initially take the risk, later to turn these activities over to the private sector. The textile industry is the prime example to date.

#### B. FOREIGN PRIVATE SECTOR

The bulk of foreign private sector has taken place under Investment Law 72-38 which applies to businesses producing solely or partially for export. Abu Dhabi and Kuwait are the leading foreign investors in Tunisia. Their area of emphasis has been the rapidly expanding chemical industry. The West Germans, with the French close behind, are the leading non-Arab investors under this law. The West Germans have approximately 80 wholly owned companies, the majority of which are textile enterprises. It appears as though the West Germans are using Tunisia for their run-away industries to take advantage of the financial incentives provided by the Investment Law and the cheap Tunisian labor. In contrast the West Germans have only recently made a joint venture investment under Investment Law 74-74, which concerns industries producing for the domestic market. This investment, by Klockner-Humboldt-Deutz for the production of diesel engines approximates the totality of West German investment under Investment Law 72-38. To date U.S. investment is minimal. Before the announcement of the GM automobile and light truck assembly venture, U.S. investment in Tunisia was approximately \$3-4 million and declining. U.S. investment includes companies such as Singer, Sheraton-ITT, and the American Uniform Co.

#### IV. FACTORS IMPACTING ON PRIVATE SECTOR GROWTH

##### A. EMPLOYMENT GENERATION

The generation of employment as one means of insuring continued social stability is the number one priority of the GOT. The new Sixth Economic Plan is expected to show a need to generate approximately 320,000 new jobs for the 1982-87 period. 46 percent of all Fifth Plan jobs created were in manufacturing industries although this sector received only 19 percent of total investment. As a result of this performance combined with major manufacturing industries being in the public sector, the GOT is planning to continue to invest in and expand its activities to create employment. Increased GOT investment in manufacturing industries, bureaucratic resistance, price controls and the resulting subsidies all combine to effectively preclude the possibility of the private sector entering or desiring to participate in large scale manufacturing activities.

##### B. GOT INVESTMENT PRIORITIES FOR THE PRIVATE SECTOR

The GOT has yet to announce preferences for the private sector. General targets of opportunity have been identified however, no substantive policy changes have been initiated by the GOT to direct savings and investment into these areas. For example, incentives for private savings are skewed in the direction of less productive investments such as real estate instead of areas where Tunisia has a comparative advantage, such as agriculture (i.e., orange and olive production).

##### C. U.S. INVESTMENT IN TUNISIA

U.S. companies have not been interested in investing in Tunisia for two major reasons:

- With a population of only 6 million people, U.S. companies have made a conscious decision that the Tunisian market is not large enough to generate economies of scale in production to warrant investment in manufacturing facilities; and

- Tunisia's proximity to Europe, particularly France, its cultural and language ties to France, and its lack of knowledge and interest in the export market to Europe, particularly the EEC.

##### D. BILATERAL INCOME TAX TREATY

A Bilateral Income Tax Treaty has yet to be consummated between the U.S.

Government (U.S.) and the Government of Tunisia (GOT) after several years of negotiations. There are two outstanding issues "Double Taxation", which is considered a major problem, and "Crossing-Up" that stand in the way of completing the agreement.

### 1. Double Taxation

This issue involves a conflict of views between the U.S. and GOT on the taxation of U.S. companies expatriating income from joint venture or wholly owned operations in Tunisia. The GOT laws governing foreign investment exempt corporate income from taxation for periods of up to 20 years. GOT will not allow U.S. companies to take advantage of these investment incentives because income earned in Tunisia, but not taxed in Tunisia, will be taxed in the U.S. when expatriated. GOT's position is that U.S. taxation of this income is a real cost to Tunisia. Therefore, their position is that they should also tax this income, the source of which is Tunisia. At this time there appears to be no prospect for resolution of this issue. Although, in any case, a large U.S. investment flow to Tunisia is not foreseen this issue could remain one of the stumbling blocks to U.S. investment in Tunisia.

### 2. Crossing-Up

The GOT has taken a position which provides for the declaration of "Worldwide Income", which affects all expatriates resident in Tunisia. Combined with an extremely high personal income tax rate, the expatriate taxpayer must declare "Worldwide Income" for taxation in Tunisia. "Worldwide Income" is defined as the employee's base salary plus all non-salary benefits received from the employee's employer, (i.e. housing, education allowances, moving expenses, overseas differentials, etc), plus all unearned income (i.e. dividends and interest on investments and savings). When the U.S. company pays the employee's income tax in Tunisia, the GOT counts this as income and is taxed as well. This escalates the tax liability to exorbitant levels. The Embassy believes that if the "Double Taxation" issue is resolved this one will be as well.

The above issues can be serious impediments to promoting U.S. investment in Tunisia and even if they are resolved within the next few months, the average time frame for U.S. Senate ratification of similar treaties is approximately one year.

### 3. LAND OWNERSHIP

Currently in Tunisia, prime agricultural land is state owned. Foreign companies that own a majority interest in a joint venture or choose to establish a company with 100% foreign ownership are not allowed to own these state lands. The common method of circumventing this restriction is leasing the land from the Government. If foreign companies are

minority share holders, the local partner must be the landowner. Alternatively, if the agricultural venture is to own land the venture must be at least 50% owned by the GOT. This restriction, according to many of the individuals we talked to, will probably be eliminated in the near future. As we understand it, a new Agriculture Code has been placed before Parliament for consideration, which includes an allowance for foreign ownership of current state owned land for agriculture ventures. Its prospects for approval and passage were assessed to be excellent.

#### F. SHORTAGE OF MIDDLE MANAGEMENT TALENT

Local private sector companies in Tunisia are primarily composed of family-owned privately held business. Management, in most instances, is controlled by family members who have little or no desire to provide opportunities for talented employees to train and develop as middle managers. Accordingly, these businesses suffer from an inability to grow and become a major force in their primary line of business. Further, due to the lack of a cadre of middle management types to operate the business on a day-to-day basis, top management is not free to pursue its normal task of short and long range planning. This is not to say middle managers do not exist. In those instances where trained middle managers are available, needed and wanted by private businesses, the private businesses cannot compete with the large public sector companies because of penalizing income tax policies applicable to the private sector. So they choose to work in the public sector for the higher compensation and because of the security provided. Accordingly, we see the growth of these small businesses through conglomeration by the acquisition of similar and associable businesses not requiring a sizable cadre of middle-management.

#### G. INVESTMENT PROMOTION AGENCY

Among their many tasks, the Investment Promotion Agency has the prime responsibility of approving both local and foreign jointly or wholly owned investment projects. GM advised us that it took only eight months from project conception to get IPA approval and to negotiate all agreements and contracts. This is an example of how quickly IPA is ready to respond and the preferential treatment given to those private sector projects upon which the GOT places a high priority. The information collected by the Team indicates the response to GM be the exception rather than the rule. The norm for project approval is one to one and one-half years. This may be a disincentive to investment by the private sector.

#### H. WATER SUPPLY

Water is in short supply in Tunisia. Irrigation system technology is not adequate, groundwater is depleting rapidly and weather conditions have

been erratic with agricultural output fluctuating annually with variation in weather conditions. Unless the GOT makes this problem a priority concern and directs investment into this area, agriculture will continue to fluctuate in its contribution to the GDP, and foreign exchange earnings. Private sector initiatives may thus be limited.

#### I. OFFSHORE BANKING

To facilitate international trade and support foreign investors operating under Law 72-38, an offshore banking law (Law 76-63) was promulgated permitting the establishment of financial and banking institutions with non-resident status eligible for incentives such as the freedom to transfer funds and tax advantages. Offshore banking units are able to accept deposits in foreign currencies and extend credit to non-residents. With the approval of the Central Bank, they may also extend credit to resident companies both in the public and private sectors. Two U.S. banks, Citibank and Bank of America operated offshore branches until as recently as late 1981 but have decided to pull out because once approval was given by the Central Bank to allow them to extend credit to resident companies, earnings from those credits were taxed, significantly reducing the tax advantages and therefore the profitability of the offshore units.

#### J. ENTREPOT

The idea that Tunisia can become the Singapore or Hong Kong of the Mediterranean through development of the duty free zone concept to encourage manufacturing and assembly to take advantage of cheap labor seems to be a very popular one in Tunisia today. The TDP program financed a \$15,000 grant to fund a "Definitive Mission" or pre-feasibility study on the possibility of creating such a regional foreign trade facility. The recommendation of this study was that a more detailed feasibility study be undertaken. The Team's suggestion is that this concept not be pursued because, on a relative basis, Tunisia's labor wage rates are high and productivity quite low when compared to places like Singapore and Hong Kong and are not likely to be changed adequately. Overall it is the Team's view that the objective of Singapore's entrepot activity is a worthy one but the probability of achievement in Tunisia is so low that it is not worth the allocation of resources. Therefore, such a scheme could be expensive to the Tunisian economy.

## V. OPPORTUNITIES AND RECOMMENDATIONS

### A. BILATERAL INCOME TAX TREATY

PROBLEM: The inability of the U.S. and Tunisian Governments to consummate a Bilateral Income Tax Treaty can potentially be a stumbling block to U.S. investment in Tunisia.

RECOMMENDATION: The Team recommends that continued efforts be made to resolve the "Double Taxation" and "Crossing-Up" issues.

FOLLOW-UP: A.I.D. management should encourage the Treasury Department to expedite resolution of this matter.

### B. AGRI-BUSINESS DEVELOPMENT

PROBLEM: Technology is not available in the animal feed and poultry production sector. A number of government and private companies identified this sector as a potential growth area, particularly for export to Algeria. The Tunisian-Arab joint venture development banks are very interested and feel U.S. technology is superior.

RECOMMENDATION: The Team recommends that studies be conducted in this sector to determine the viability of an export approach. U.S. firms with appropriate technology be matched with interested Tunisian partners for joint venture and/or technology transfer discussions.

FOLLOW-UP: The Team suggests that the Trade and Development Program be tapped for resources to conduct the studies recommended. Keith Brown can pursue with TDP. If projects are identified, David Milton could be called upon to package these projects and TDP to finance the U.S. equipment requirements.

### C. MIDDLE MANAGEMENT TRAINING

PROBLEM: Shortage of middle management talent for the private sector because of tight family control of businesses and security in public sector jobs.

RECOMMENDATION: The Team recommends that the current management education system be studied at length by a practitioner from the education field and make recommendations on the proper interventions. An individual of the calibre of M. Colyer Crumb, Associate Dean, Harvard School of Business is suggested.

FOLLOW-UP: If the Mission so desires, David Milton can contact Crumb or other reputable education practitioner.

#### D. BRAND DEVELOPMENT

PROBLEM: Tunisia has a comparative advantage in agriculture, particularly in citrus products, such as oranges. They are of excellent quality and there is tremendous demand for this product in the European market. However, because of a lack of brand identification neither Tunisia's oranges or its other citrus and vegetable products make a satisfactory penetration of the European market.

RECOMMENDATION: The Team recommends that technical assistance be provided to the GOT to establish a standards agency with the authority to dispense a government brand for agricultural exports.

FOLLOW-UP: The Mission should begin a dialogue with the pertinent GOT agency to explore the government's interest in the concept. The IESC could possibly play a major role in this effort. Taubenblatt will call Frank Pace.

#### E. INVESTMENT SEMINAR

OPPORTUNITY: A.I.D. together with other pertinent U.S. government agencies, in conjunction with the Joint Tunisia-Arab Development Banks, should sponsor investment seminars to attract U.S. investors to Tunisia.

RECOMMENDATION: The Team recommends that the Ali Hedda proposal for the development of such a conference be considered. This conference would have specific investment opportunities to offer.

FOLLOW-UP: Ambassador Ali Hedda should take the lead here and try to coordinate this among interested U.S. agencies and possibly a sponsoring bank.

#### F. CHAMBER OF COMMERCE

OPPORTUNITY: Private Tunisian businessmen have expressed an interest in the establishment of a Chamber of Commerce for young entrepreneurs to sensitize the GOT to the problems and needs of the Tunisian private sector.

RECOMMENDATION: The Team recommends that A.I.D. provide support to this group by providing them with information from the U.S. Chamber of Commerce and, if requested, arrange for technical assistance.

FOLLOW-UP: Keith Brown will make contact with the U.S. Chamber of Commerce to obtain general information on organizing a Chamber of Commerce for transmittal to Tunis.

### G. INCREASED IESC ROLE

OPPORTUNITY: A few companies expressed a desire for IESC assistance to support agri-business and industry with management, appropriate technology, and selected technical assistance, e.g., building materials.

RECOMMENDATION: The Team recommends that IESC send representatives to Tunisia to explore specific opportunities.

FOLLOW-UP: Taubenblatt will discuss with Frank Pace.

### H. U.S. TRAINED TUNISIAN ENGINEERS

OPPORTUNITY: The Tunisian Engineering Association has expressed a desire for the continuing need to train Tunisian engineers in the U.S. and to create a better relationship with U.S. Engineering Societies.

RECOMMENDATION: The Team recommends that A.I.D. continue its support and facilitate training of Tunisian engineers in the U.S. and make arrangements to create a better relationship between U.S. and Tunisian engineering societies.

FOLLOW-UP: USAID/Tunis to continue to identify and finance appropriate opportunities in training Tunisian engineers. Taubenblatt will contact George Fry, Executive Director, ASCE on establishing such relationships.

### I. HOUSING INVESTMENT GUARANTEES

OPPORTUNITY: HIG's can support private investment, by supporting development of worker housing.

RECOMMENDATION: The Team recommends that housing be developed in Karawan to provide worker housing for the General Motors/Tunisian government joint venture project for the production of light trucks.

FOLLOW-UP: The USAID Regional Housing Officer should continue efforts to resolve the interest rate issue with the Tunisian Ministry of Finance and also develop a HIG project in Karawan.

TUNIS, le 30 sept 1982

/)/) Monsieur le Directeur de la Mission  
Spéciale Américaine de Coopération  
Economique et Technique en Tunisie  
149, Avenue de la Liberté

T U N I S

O B J E T : Coopération Tuniso-Américaine  
Fonds de soutien Economique à la Tunisie (E.S.F.).

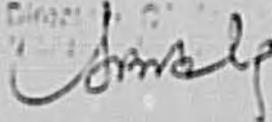
Monsieur le Directeur,

J'ai l'honneur de porter à votre connaissance que le Gouvernement Tunisien se félicite de la poursuite de la Coopération Economique tuniso-américaine et apprécie la décision prise par les Autorités Américaines pour accorder à la Tunisie cinq millions de \$ US au titre du Fonds de Soutien Economique (E.S.F.) pour l'année fiscale 1982.

Par ailleurs, je vous fait part de l'Accord du Gouvernement Tunisien pour l'affectation des cinq millions de \$ US comme suit :

- 1,5 million de \$ US pour le financement d'opérations d'encouragement au secteur privé et de transfert de technologie
- et 3,5 millions de \$ US pour financer les opérations de recherches dans le secteur agricole.

Je vous prie d'agréer Monsieur le Directeur l'expression de ma considération distinguée.

Le Directeur  
M. G. G.  
  
Général ~~de l'Air~~

## ANNEX D

### JUSTIFICATION FOR SECTION 612(b) DETERMINATION

#### Recommendation to Purchase Tunisian Dinars with U.S. Dollars

Over the life of the project, roughly \$750,000 in local cost project funds will be used to support local currency expenditures that will be made by the Tunisian Government and Tunisian private sector entities to execute specific project subactivities. Dollar funds will be used to pay for the costs of U.S. technical assistance, commodities and participant training. U.S. contractors will purchase dinars with U.S. dollars provided by the project in accordance with procedures prescribed by A.I.D. The contractors will be responsible for many of the expenditures which will be made in accordance with the agreements reached between A.I.D. and the Tunisian Government.

One reason for using dollar funds in conjunction with Tunisian dinar costs of the ESF project is that this represents an additional real resource to the Tunisian economy and supports efforts by the Tunisian Government to implement new initiatives. Although Tunisia is a near-excess foreign currency country, it is believed that it will not be so for much longer, and the amount of U.S.-owned local currency available to A.I.D. is restricted to that which is not allocated for other priority purposes. Accordingly, the availability of excess local currency at any point in time cannot be predicted.

The Tunisian contribution to this project of not less than \$500,000 equivalent in local currency is evidence of their support for and interest in these innovative activities.

Given the above considerations and the fact that the Private Sector Development and Technology Transfer Project is fully consistent with the mandate of the Foreign Assistance Act, we have concluded certain local currency project costs should be dollar funded.

ANNEX E

5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only: B.1. applies to all projects funded with Development Assistance Funds, B.2. applies to projects funded with Development Assistance loans, and B.3. applies to projects funded from ESF.

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

A. GENERAL CRITERIA FOR PROJECT

1. FY 1982 Appropriation Act Sec. 523; FAA Sec. 634A; Sec. 653(b).

(a) Describe how authorizing and appropriations committees 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 amount)?

Routine Congressional notification.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,00, will there be

(a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

Yes. 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?

None required.

4. FAA Sec. 611(b); FY 1982 Appropriation Act Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973? (See AID Handbook 3 for new guidelines.)

N/A

5. 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 and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

N/A

6. FAA Sec. 209. Is project susceptible to 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.
- No. Project designed to complete U.S. initiatives.
7. FAA Sec. 601(a). 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; and (c) encourage development and use of cooperatives, and 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.
- Project designed to achieve items (a), (b) and (e).
8. FAA Sec. 601(b). Information and conclusions 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).
- Project designed to promote private sector development in Tunisia and strengthen links with U.S. entities.

9. FAA Sec. 612(b), 636(h);  
FY 1982 Appropriation  
Act Sec. 507. 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  
in lieu of dollars. Section 612(b) determination is  
sought to permit purchase of some  
local currency with dollars.
10. FAA Sec. 612(d). Does  
the U.S. own excess  
foreign currency of the  
country and, if so, what  
arrangements have been  
made for its release? Tunisia is a near-excess currency  
country.
11. FAA Sec. 601(e). Will  
the project utilize  
competitive selection  
procedures for the  
awarding of contracts,  
except where applicable  
procurement rules allow  
otherwise? Yes.
12. FY 1982 Appropriation Act  
Sec. 521. If assistance  
is for the production of  
any commodity for export,  
is the commodity likely  
to be in surplus on world  
markets at the time the  
resulting productive  
capacity becomes  
operative, and is such  
assistance likely to  
cause substantial injury  
to U.S. producers of the  
same, similar or  
competing commodity? N/A
13. FAA 118(c) and (d).  
Does the project comply  
with the environmental  
procedures set forth in  
AID Regulation 16? Does Yes.

the project or program take into consideration the problem of the destruction of tropical forests?

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?

N/A

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

N/A. An ESF project.

a. FAA Sec. 102(b), 111, 113, 251(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (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; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

e. 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, or is the recipient country "relatively least developed"? (M.O. 1232.1 defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than \$100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character."

f. FAA Sec. 122(b). 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?

g. 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 civil  
education and training in  
skills required for  
effective participation in  
governmental processes  
essential to self-government.

2. Development Assistance Project  
Criteria (Loans Only)

N/A

- a. FAA Sec. 122(b).  
Information and conclusion  
on capacity of the country  
to repay the loan, at a  
reasonable rate of interest.
- b. FAA Sec. 620(d). If  
assistance is for any  
productive enterprise which  
will compete with U.S.  
enterprises, 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?
- c. ISDCA of 1981, Sec. 724  
(c) and (d). If for  
Nicaragua, does the loan  
agreement require that the  
funds be used to the  
maximum extent possible for  
the private sector? Does  
the project provide for  
monitoring under FAA Sec.  
624(g)?

3. Economic Support Fund  
Project Criteria

- a. FAA Sec. 531(a). Will  
this assistance promote  
economic or political

stability? To the extent possible, does it reflect the policy directions of FAA Section 102?

Yes. Yes.

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?

No.

c. FAA Sec. 534. Will ESF funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives?

No.

d. FAA Sec. 609. If ..... commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

N/A

4

ANNEX F

USAID/Tunisia Project Committee

Gerald Wein, Deputy Director  
Steven Carlson, Regional Legal Advisor  
Frank J. Kerber, Acting Program Officer

USAID/Tunisia Director's Development Advisory Committee

Gerald Wein, Deputy Director (Chairperson)  
Steven Carlson, Regional Legal Advisor  
Leonard Coppold, Director, CARE  
C. John Fliginger, Food and Agriculture Officer  
Dale C. Gibb, Health, Population and Nutrition Officer  
Charles O. Graham, Director Peace Corps  
Ernest S. Hardy, Controller  
Frank J. Kerber, Acting Program Officer  
R. Ellsworth Miller, Director USIS  
Robert Parker, Director, Catholic Relief Services  
Richard Stevenson, Science Advisor  
John Polansky, Economic Officer, American Embassy  
Dorothy Young, Rural Development Officer

ACTION: AID-8  
INFO: AMB DCM  
EGON CHRON/12

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DEPARTMENT OF STATE  
**TELEGRAM**

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ANNEX G

E.O. 11065:1/A

TAGS:

SUBJECT: MEETING OF NE BUREAU STAFF WITH MANCEF BEN ABDALLAH,  
DIRECTOR, TUNISIAN INVESTMENT PROMOTION AGENCY

1. ON APRIL 26, DURING VISIT OF TUNISIAN PRIME MINISTER  
MZALI, MEYNERA (PHIPPARD, LEWIS) AND NE/PO (TAUBENBLATT,  
BELL, BROWN) MET WITH MR. BEN ABDALLAH AND EMBASSY ECONOMIC  
AND COMMERCIAL COUNSELOR BEN YOUNES TO DISCUSS TUNISIAN  
PRIVATE SECTOR DEVELOPMENT INTERESTS.

2. MR. TAUBENBLATT OPENED DISCUSSION WITH A BRIEF REVIEW  
OF PRIVATE SECTOR ASSESSMENT AND SOME OF THE OPPORTUNITIES  
AND NEEDS IDENTIFIED DURING THE NE PRIVATE SECTOR TEAM VISIT  
IN MARCH. TAUBENBLATT DESCRIBED THE CONDITIONS FOR PRIVATE  
SECTOR DEVELOPMENT IN TUNISIA AS MOST FAVORABLE.

MR. BEN ABDALLAH AGREED WITH THE TEAM'S CONCLUSION AND  
THAT THERE ARE INVESTMENT OPPORTUNITIES WHICH SHOULD  
INTEREST THE U.S. AS WELL AS PROBLEMS WE COULD HELP RESOLVE.  
IN THIS CONNECTION, HE REVIEWED WITH US THE DOUBLE TAXATION  
TREATY ISSUE AND ALSO, OF PARTICULAR IMPORTANCE IN HIS  
ESTIMATION, THE NEED FOR A STUDY OF THE TUNISIAN INVESTMENT  
ENVIRONMENT JUSTE FROM THE U.S. INVESTOR POINT OF VIEW  
UNQUOTE. ON THE LATTER POINT, BEN ABDALLAH REMARKED THAT  
AMERICAN FIRMS LACK INFORMATION ON TUNISIAN COMMERCIAL

AND INVESTMENT POTENTIAL, AND THAT TUNISIA REQUIRES A  
BETTER UNDERSTANDING OF THE FACTORS THAT INHIBIT U.S.  
INVESTMENT.

3. CONSENSUS OF THE MEETING WAS THAT AID COULD PLAY A  
USEFUL ROLE IN PLANNING AND ORGANIZING SUCH A STUDY WITH  
THE TUNISIANS. THE EFFORT AS DISCUSSED WOULD FOCUS ON A  
FEW CAREFULLY SELECTED INDUSTRIES AND CONSTRAINTS TO  
INVESTMENT SPECIFIC TO THOSE AREAS. MR. PHIPPARD NOTED  
THAT THE FORD FOUNDATION, IN COOPERATION WITH THE  
EGYPTIAN INVESTMENT AUTHORITY, DID A STUDY WHICH WAS  
INSTRUMENTAL IN POINTING OUT LEGAL AND PRACTICAL  
CONSTRAINTS UNDER EGYPT'S THEN NEW INVESTMENT CODE  
(LAW 43). THAT STUDY WAS PARTICULARLY EFFECTIVE IN  
ELICITING THE PRACTICAL CONCERNS OF INVESTORS, ACTUAL AND  
POTENTIAL. THE PROPOSED TUNISIA REVIEW MIGHT INCLUDE

SIMILAR ASSISTANCE, INCLUDING TAPPING THE EXPERIENCE OF REPRESENTATIVES OF U.S. BUSINESSES IN THE CHOSEN INDUSTRIES.

4. WITH RESPECT TO AN INVESTMENT SEMINAR PROPOSED BY AMBASSADOR HEDDA TO INVOLVE THE TUNISIAN-ARAB BANKS, MR. BEN ABDALLAH POINTED OUT THE IMPORTANCE OF COORDINATING THIS INITIATIVE WITH OTHER ACTIVITIES HE INDICATED WERE UNDER CONSIDERATION, SUCH AS OPIC'S INTEREST IN AN INVESTMENT SEMINAR IN 1983. IN THIS REGARD, THE PROPOSED STUDY, WHICH BEN ABDALLAH SUGGESTED BE CONDUCTED IN COMING MONTHS, WOULD LAY THE GROUNDWORK FOR AN INVESTMENT SEMINAR DIRECTED TO SPECIFIC SECTORS OF MUTUAL INTEREST AND ACTIONS TAKEN OR NEEDED TO GENERATE U.S. BUSINESS INVOLVEMENT.

5. MR. BEN ABDALLAH STATED THAT HE WOULD BE IN DISCUSSION WITH AMB. HEDDA ON THESE IDEAS AND WOULD APPROACH USAID AND THE U.S. EMBASSY TO HELP DEVELOP TERMS OF REFERENCE AND SECTOR PRIORITIES FOR THE PROPOSED INVESTMENT STUDY. IT WOULD BE USEFUL FOR MISSION TO MAKE CONTACT WITH HIM. HE WOULD LIKE TO BE KEPT AHEAD OF DEVELOPMENTS AND STAND READY TO ASSIST WHERE APPROPRIATE.

6. FYI. MR. BEN ABDALLAH ALSO MET WITH AA/PRE ELISE DU PONT WITH TOP, NE/NEA AND NE/PD PRESENT. MS. DU PONT DESCRIBED OBJECTIVES OF PRE RECONNAISSANCE MISSIONS AND CRITERIA USED IN COUNTRY SELECTION. MR. BEN ABDALLAH STATED IN HIS VIEW THAT TUNISIA MEETS THE PRE CRITERIA AND THE HOPE THAT TUNISIA MIGHT PARTICIPATE IN THE NEXT ROUND OF PRE STUDIES. MS. DU PONT NOTED PRE'S CONTINUING INTEREST IN TUNISIA AS A POSSIBLE FUTURE RECONNAISSANCE MISSION PARTICIPANT. HAIG

BT  
#4145

BEST AVAILABLE DOCUMENT

ANNEX H

EXCERPTS FROM GOT SIXTH PLAN (1982-86), VOL. I

pg. 15 para 16

Our socialism must not be authoritarian, dogmatic and centralizing. It must be democratic and participative.

It must not be authoritarian and centralizing. This raises the problem of the ownership and control of the means of production, the respective responsibilities of the State and public enterprise, the private sector and private initiative, the cooperative sector and its economic and social role.

It must be democratic and participative. This raises the problems of social justice, income distribution, relations between social partners and finally that of public freedoms and the growth of the nation's living forces: the youth and the working community.

pg. 18 para 22

Under Tunisian socialism, production combines diversity and équilibre. There is therefore plenty of room for a modern, organized and disciplined private sector.

There are economic sectors where Government offices are too cumbersome and complex to intervene directly. We must also say that as long as man (the Tunisian as much as any other) is neither a god nor a saint, "egoistic" motivations such as private interest and profits will continue to be two powerful primers for economic progress, especially as far as production is concerned. Those who try to break them instead of channeling and disciplining them, are obliged to resort to force and coercion.

We must therefore say that Tunisian socialism will leave much room for and give encouragement to a large private sector.

But such encouragement will be clear and substantial as long as national discipline and moral standards prevail in this sector. If Tunisian socialism encourages private enterprise, it cannot tolerate and shall fight easy profits, illegal gains and the exploitation of others.

pg. 18 para 23

Incentives to the private sector have multiplied during the last two decades and they must continue in the light of this policy. But what needs to be done is more effort to educate the whole of the private sector and to make it more aware of what the country needs: entrepreneurs who are courageous, well informed, aggressive in external markets and sincerely willing to serve their fellow citizens and to contribute to the country's prosperity. To survive, thrive and be accepted by the public, the private sector must accept to fulfill willingly its essential obligations: first,

its fiscal obligations, especially after the proposed fiscal reform; its social obligation, giving particular attention to the human factor; and its economic obligations, by gaining access to modern management methods and by training a growing elite of qualified managers.

When it meets the above requirements, private enterprise becomes a factor of progress and must deservedly hold an honorable place in the Tunisian socialist economy.

pg. 80 para 4

The private sector, based on the type of projects which are generally small to medium-sized labor-intensive activities, will play an important part during the 6th Development Plan. Its contribution to the overall investment effort will reach 44% as against 43% during the 5th Plan. For capital-intensive projects its contribution will amount to 50% (as against 46% during the 5th Plan period) and for labor-intensive projects to 87% (as against 83% during the 5th Plan).

For its part, the public sector's contribution to overall investments will fall from 57% to 56% between the 5th and the 6th Development Plans, as investments in large capital-intensive projects that are generally implemented by public enterprises will be curtailed.

	<u>5th Plan</u>		<u>6th Plan</u>	
	<u>TD Million</u>	<u>%</u>	<u>TD Million</u>	<u>%</u>
<u>Public Sector</u>				
Administration	703	15.5	1,643	20
Public enterprises	1,879	41.5	2,957	36
	<hr/>	<hr/>	<hr/>	<hr/>
	2,582	57.0	4,600	56
<u>Private Sector</u>				
Private enterprises	1,197	26.3	2,600	31.7
Households	760	16.7	1,000	12.3
	<hr/>	<hr/>	<hr/>	<hr/>
	1,957	43.0	3,600	44.0

DEVELOPMENT PATTERN OF THE 6th PLAN

	R E F E R E N C E				6th Plan
	1st Decade	2nd Decade	4th Plan	5th Plan	
1. Investments					
Overall amount					
- In current MD	1310	6350	1597	4539	8200
- In 1980 MD	2424	7510	2430	4750	5480
Investment rates	22.4	28	25.2	29.8	25.6
Marginal Capital Coefficient	6	4	4	4.5	4.1
Investment Structures by Sector (%)					
Agriculture	20.7	12.9	12.8	12.9	18.9
Manufacturing industries	11.5	17.5	17.1	18.0	19.5
Non-manufacturing Industries	16.5	22.9	24.0	22.5	20.6
Services	51.3	37.4	36.2	37.5	31.8
Including Tourism	(9.5)	(3.1)	(3.5)	(2.6)	(5.5)
Community Facilities	16.4	9.3	9.9	9.1	9.2
Investment Structures by Agent %					
Administrations	33.8	16.2	17.3	15.5	20.0
Public Enterprises	34.1	39.8	36.1	41.4	36.1
Private Enterprises	19.1	27.7	30.9	26.4	31.7
Households	13.0	16.3	15.7	16.7	12.2
- Public Sector	68	56	53.4	56.9	56
- Private Sector	32	44	46.6	43.1	44
Investment Structures by Nature (%)					
Differed Productivity	50	40	38	39.7	37.7
Productive Capital Intensive	32	37	36	39.1	34.3
Productive Labor-intensive	18	23	26	21.2	28.0

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