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UNITED STATES
INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

AGENCY FOR INTERNATIONAL DEVELOPMENT

TUNISIA: FY 1986 COMMODITY IMPORT PROGRAM

AID GRANT NO. 664-K-601

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CLASSIFICATION:

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18. Summary Description
To ameliorate the effect of recent drought conditions on human and livestock populations in Tunisia, this grant provides for a portion of the foreign exchange required to help Tunisia import emergency quantities of feedgrains from the U.S.

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I. BACKGROUND AND RATIONALE

A. U.S. Interests and Objectives

Tunisia's importance to the U.S. arises from its strategic geographic location in the Mediterranean Basin and the Government of Tunisia's (GOT) political orientation. An overriding U.S. objective is to maintain our close ties with and support for an independent, non-communist, pro-Western government. President Bourguiba's official visit to the U.S. in July 1985 reaffirmed his country's long-lasting friendship with the U.S. and Tunisia's willingness to work with us toward peace in the Middle East. Events in the Middle East and Mediterranean region generally have tended to complicate progress on the peace issue.

Serious social and economic tensions, exacerbated by the politically motivated expulsion of thousands of Tunisian workers from Libya in mid-1985, pose a threat to the continuation of a stable democratic society. Political considerations, in addition to developmental and humanitarian objectives, have required the U.S. to take an active interest in helping Tunisia address the socio-economic needs of its people at a particularly difficult time in the country's history. U.S. economic aid is viewed as tangible proof of our support for the country's stability in the face of potential internal and external threats. The CIP will demonstrate continued U.S. support for the Bourguiba government.

B. Background / Rationale

Tunisia is in the throes of a deep economic crisis. Already hard hit by plunging oil prices, the economy has been dealt a further severe blow by drought. Estimates for this year's cereal crop are that it will be down by 50%, and losses for livestock, which have been very seriously affected by forage crop losses and poor pasture conditions, are likely to be severe. In fact, the drought's impact on Tunisian livestock has been disastrous. This is more fully covered in the following section of this document.

The proposed \$4.774 million Commodity Import Program (CIP) will be a one time only occurrence, enabling the USG to be responsive to the drought and Tunisia's oil-related balance of payments difficulties.

The CIP will have a positive impact on Tunisia's balance of payments. In addition to the decline in oil prices and the drought, the country's access to foreign exchange is being affected negatively by difficulties in maintaining domestic

petroleum production levels, the recession in the other Middle East oil producing states which is leading to reduced remittances, and soft world markets for the country's non-oil exports. Tunisia's fragile economy, thus, is in dire need of foreign exchange to ease growing debt-service difficulties. Additional foreign exchange through sustaining consumption, investment and production will permit the country to avoid an abrupt short-term deterioration of the standard of living of the general populace. The USG assistance also will permit Tunisia to finance imports required for the agricultural sector in particular. Further, if spending must be cut in response to financial difficulties, the unemployment problem -- already critical -- will deepen. Moreover, local currency proceeds of the CIP will be programmed, providing support for key GOT development projects.

As part of the overall A.I.D. assistance package, the CIP will contribute to U.S. and other donor efforts to promote structural adjustment of the Tunisian economy through leveraging key economic reforms. However, the principal and more immediate benefit will result from relating it to A.I.D.'s on-going efforts to stimulate much needed reform of Tunisian agricultural policies and practices. The primary thrust of reforms now under discussion with the GOT is encouragement of private sector activity and the use of market signals rather than government regulation. While the GOT has been introducing economic reforms, it has yet to move forward boldly and the CIP will provide a further stimulus. In addition, responding to the current emergency situation with the CIP-financed procurement of feedgrains will provide added support for P.L. self-help measures to increase agricultural productivity.

C. Impact of the Drought on Livestock in Tunisia

Following better than average rainfall in 1984-85, Tunisia has recently been buffeted by severe drought conditions. In early March 1986, senior-level Embassy and USAID officials met twice with Minister of Agriculture Ben Osman to discuss how the United States might be able to provide assistance in dealing with the impact of the drought. During these meetings, the Minister drew a graphic picture of the problems facing the people who depend on livestock for their livelihood and the GOT's concern for the adverse effect which the drought was having on the Tunisian economy.

The Minister said that due to drought conditions, the country would have a shortfall of 800,000 MT of forage crops and that critical shortages in local production would persist until April/May 1987. Based on current conditions, independently confirmed by Embassy and Mission staff, approximately 90,000

families, or 450,000 people who depend largely on livestock, are at risk in Central and Southern Tunisia. These people represent 25% of those engaged in agriculture in Tunisia. For the next few months (until June), which is only the beginning of the critical period, the gaps in feed stocks are 75,000 MT of barley and 40,000 MT of pelletized alfalfa.

In order to deal with this disaster, the GOT has already purchased 60,000 MT of barley and 10,000 MT of pelletized alfalfa. There is an immediate need, therefore, for 45,000 MT of additional feed stocks. The Minister urged the United States to consider aid supplemental to planned P.L. 480 levels, given the emergency nature of the current situation. He recommended corn as the ideal form of assistance since it is a good feed substitute and easy to distribute. The Minister further claimed that feed, rather than food, is appropriate since herders were already shifting from food to feed to preserve their livelihood. Finally, the Minister indicated that the GOT has discussed the crisis needs brought on by the drought with other donors but had not yet received any firm commitments on assistance.

II. CIP ECONOMIC JUSTIFICATION

A. Balance of Payments

1. Overview

Tunisia's balance of payments is under severe pressure (see Table 1). The balance of payments deteriorated significantly in 1984, and 1985 improvements were due, at least in part, to the imposition of strict import controls. Now plunging oil prices, drought, and reduced remittances are producing a severe foreign exchange shortage. In the 1970s, growth had reached 7%. However, current balance of payments constraints will adversely affect growth prospects. In fact, over the next couple of years, the country, in all likelihood, will record negative growth. Rapid population growth of roughly 2.5% per annum will compound the problem, and declines in economic welfare are anticipated over the near term.

2. Structure

Traditionally, balance of payment deficits have been modest. Prior to 1984, current account deficits as a percentage of GDP were under 10%. Most important merchandise exports which totaled \$1,798 million in 1984 -- the latest year for which complete data are available -- consist of hydrocarbons (\$727 million), textiles and leather (\$386 million), and chemical products (\$298 million). Tourism and worker remittances have

also contributed sizeable foreign exchange, furnishing \$460 and \$317 million, respectively in 1984. Main imports, which added up to \$3,018 million in 1984, include raw materials and semi-finished products (\$940 million), investment goods (\$747 million), energy imports (\$380 million), and foodstuffs (\$373 million). Current account deficits are financed primarily by public and private enterprises borrowing abroad (\$328 million on a net basis in 1984) and direct and portfolio investment (\$235 million).

3. Performance

Prospects for 1986 are bleak. Only last year, plentiful rains produced record harvests. Today, the economy is being hard hit by drought. Unofficial GOT estimates indicate a serious drop of cereals and livestock production as a result of drought conditions. Planning estimates for cereals production are down 50%. Livestock has been very seriously affected due to forage crop losses and poor pasture conditions. At this time, forage is virtually nonexistent in many areas and herders are feeding inadequate amounts of high cost hay, straw, and barley which will not last. The livestock mortality rate in affected areas is triple normal and could go higher if much needed rains do not arrive. Farmers are paying for feed trucked in from other parts of the country by heavy culling of herds. As a result, wholesale meat prices already have fallen by 20%.

Oil prices are plunging. In some markets, they are approaching \$10 per barrel. The erosion of oil prices coupled with the severe drought could produce foreign exchange losses of as much as \$200 million in 1986. Moreover, the GOT has imposed a cap on external borrowing for 1986 which will further limit foreign exchange inflows into the economy. Other factors do not augur well for the balance of payments, including:

- difficulties in maintaining domestic petroleum production levels;
- the recession in Middle Eastern oil-producing states and the continuing tension with Libya, both of which will affect remittances negatively;
- sluggish demand for Tunisian textiles exports in traditional Western European markets;
- weakening of the world market for phosphate derivatives; and
- the impact on tourism of recent political events, including the October 1985 bombing raid of PLO Headquarters outside Tunis.

Balance of payments difficulties were encountered in 1984 and 1985. While the balance of payments had previously been managed prudently, the deterioration that took place in 1984 was substantial. The current account deficit ballooned from \$625 million -- 7.7% of GDP -- to \$867 million or roughly 10.8% of GDP. The deficit, in part, was financed by new foreign borrowing. As a consequence, disbursed external debt rose \$270 million to stand at \$3.8 billion by year end. As a percentage of GDP, disbursed external debt rose 5% to 50% and the debt-service ratio went up from 16.6 to 19.6. Also, gross official foreign exchange reserves declined, falling \$160 million to a little over \$400 million, and were equivalent to 1.7 months of imports, compared to 2.4 months a year earlier. While the balance of payments improved in 1985, some of the improvement can be attributed to tighter import controls. For the year, imports were down \$300 million. In response to a sharp rundown of reserves early in the year, a new import control system was instituted. Quotas were scaled back and virtually all products were brought under import controls. The new regime also divided import license applications and foreign currency authorizations into two separate procedures; issuance of permission to import no longer guaranteed authorization of currency transfers necessary to effectuate the import in question.

The balance of payments also exhibited some weaknesses during the year. Petroleum prices and export volume continued to slide downward; remittances were severely affected by the Libyan expulsion of more than 20,000 Tunisian workers -- annual losses could total as high as \$40 million; and phosphate and derivative chemical exports were disappointing. Phosphate rock prices fell and derivative chemical exports had been expected to go up because of new countertrade agreements and resolution of production difficulties.

By the end of 1985, external debt including debt for military modernization was expected to total \$5.5 billion, equal to 67% of GDP, and the debt-service ratio was projected to approach 21%. Generally speaking, Tunisia's foreign debt is becoming more commercial, implying harder terms. An increasing portion is owed to commercial banks with corresponding reductions in amounts owed to official sources -- bilateral donors and multilateral creditors. Interest rates are rising; average maturity is declining and grace periods are shortening. To minimize debt-service costs and maintain its strong credit rating, the GOT is limiting external borrowing.

Given the balance of payments difficulties, major import compression is likely over the near term. The GOT will have to

either maintain, if not tighten, import controls or introduce austerity measures sufficient to reduce imports. We assume no further decline in reserves in 1986. If maintained at end year 1985 levels, they would amount to 1.7 months of imports. At 1.7 months of imports, they still would be below levels considered prudent -- roughly three months of imports. Alternatively to avoid the import compression and maintain domestic consumption, the GOT could respond through shelving its external borrowing cap. This would exacerbate future debt servicing difficulties. (In the past, the country had been regarded by bankers as eminently creditworthy. However, recent economic developments undoubtedly are having a negative impact on creditworthiness. Terms are "hardening".) The GOT also could increase oil production. However, that would promote depletion of reserves. In any event, the prospects of the import compression do not leave us very sanguine about near term growth prospects.

On the other hand, Spain's accession to the EEC will not affect the country negatively at least over the near term, as once had been feared. Olive oil accounted for \$85 million in foreign exchange in 1984. 46,000 metric tons of Tunisian olive oil -- the 1981-84 average -- will be permitted to enter the EEC under preferential tariffs until 1990. Preferential access of citrus and wine also will be maintained, if not liberalized somewhat. Moreover, the EEC financial aid program which totaled over \$100 million in 1985 will be increased.

4. Analysis of U.S.- Tunisian Trade

The United States is one of Tunisia's important trading partners. The U.S. accounts for 15.4% of all Tunisian exports (\$277 million). The U.S. is also one of Tunisia's major suppliers, providing 7% (\$211 million) of all Tunisian imports (see Table 2). These data do not include significant imports of military hardware from the U.S. which probably exceeded \$100 million in value in 1984. They also do not reflect many goods of U.S. origin sold by third-country suppliers; such goods could approach \$100 million or more in value.

TABLE 1

TUNISIA: Balance of Payments
(U.S. Millions)

	<u>1981</u>	<u>1982</u>	<u>1983</u>
Trade Balance	-1,132	-1,238	-1,081
Exports	455	1,980	1,861
Hydrocarbons	(1,308)	(911)	(832)
Textiles & Leather	(400)	(401)	(393)
Chemical Products	(319)	308	(309)
Agricultural Products	(239)	(181)	(142)
Imports	3,587	3,218	2,942
Raw Materials, etc.	(1,062)	(1,051)	(940)
Investment Goods	(961)	(1,032)	(796)
Energy Imports	(747)	(377)	(346)
Foodstuffs	(428)	(356)	(423)
Services and Transfers (net)	482	471	456
Tourism Receipts	(598)	(575)	(574)
Interest on External Debt	(211)	(204)	(208)
Worker Remittances Receipts	(361)	(372)	(359)
Current Account Balance	-649	-767	-625
Capital Account (net)	741	795	611
Direct Portfolio			
Investment <u>1/</u>	387	421	249
Medium & Long Term			
Loans (net)	275	315	346
Disbursements	(604)	(628)	(693)
Amortization	(329)	(313)	(347)
Current Account Deficit as a			
Percent of GDP	7.7	9.4	7.7
Gross Reserves (end of period)	551	614	586
Months of Imports	1.8	2.3	2.4
Debt Service Ratio <u>2/</u>	13.6	14.7	16.6
External Debt (US Million \$)	3,130	3,283	3,532
External Debt as Percent of GDP	38.0	41.5	45.0

1/ Includes grants

2/ As a percent of exports of goods, services, and transfers

Table 2 .
Tunisian Merchandise Imports
(U.S. \$ 000,000)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Total Imports	3,587	3,218	2,942	3,018
Imports from the U.S.*	215	238	262	211
U.S. share (%)	6.0	7.4	8.9	7.0

*Excluding military hardware and third country supplies of U.S. goods.

In addition to military hardware, major purchases from the U.S. in 1985 included cereals, pharmaceuticals, plastics, drilling equipment, pumps/compressors, electrical equipment and locomotive spare parts. Generally speaking, the U.S. also has a firm position in the Tunisian market in capital equipment, raw materials and semi-finished goods.

In their desire to penetrate further the Tunisian market, U.S. suppliers encounter a number of obstacles, including: (1) aggressive marketing and concessional mixed credit financing on the part of the EEC and Japan; (2) traditional Tunisian supply relationships with France, Italy, and West Germany; (3) the long distance between Tunisia and the U.S.; and (4) communications and language difficulties.

5. CIP Impact on U.S. Balance of Payments

We expect the CIP to have a small but favorable impact on the U.S. balance of payments, because the funds will be spent on U.S. agricultural commodities. Thus the program will assist in revitalizing trade relations between the U.S. and Tunisia.

Finally, the U.S. Congress has mandated that at least 18% of all CIPs be accounted for by agricultural commodities. Feedgrains furnished under the CIP will enable A.I.D. to respond to this Congressional requirement.

Tunisia B. Key Constraints to Agricultural Productivity in

1. Overview

The sharp world-wide increase in prices, starting with the oil price increases of 1973, led the GOT to increase its levels of intervention in the marketplace. Many farm and consumer product prices were controlled and substantial subsidies paid, particularly on imported consumer goods, to achieve more general economic stabilization objectives with respect to consumer prices, wage constraints, industrial and other costs. Input prices were controlled, very large subsidies were paid, and output prices were controlled to limit consumer prices. Today, subsidies still are provided on fertilizer, seed, pesticides, machinery, credit, irrigation water, much of the seed used and other inputs. Wage increases have been limited and, to a degree, subsidized by cheap food and price containment.

A serious consequence of these controls is that adjustments are highly political and consequently often not made rationally or in a timely manner. Thus agricultural price

increases have generally come too late for farmers to respond to the increased incentives, and artificially low consumer prices have resulted in growth in consumption well beyond levels that can be supported in the long run.

In recent years, increased concern over growing agricultural trade gaps and the country's declining ability to pay for a growing food import bill led to a decision to stimulate agricultural growth. One of the principal measures is to improve price incentives through annual review and, if needed, price adjustments which are announced sufficiently in advance of planting decisions to stimulate early production responses to improved price incentives.

2. Cereal and Fertilizer Prices

In 1981, at the same time the current PL 480 self-help program approach was being developed, the GOT formally adopted the practice of annual review of crop prices and costs of production and the announcement of new prices in advance of planting. The Government has followed this approach each year since.

Fertilizer prices were increased about 40% in late 1982 and again in 1985 (see Table 3). However, the new prices for fertilizer still do not reflect fully the world cost ratio of phosphate to nitrogen.

Table 3

	<u>Tunisian Fertilizer Prices</u>					
	(Dinars/MT)					
	<u>1984/85</u>			<u>1985/86</u>		
	<u>Factory</u>	<u>STEC</u>	<u>Retail</u>	<u>Factory</u>	<u>STEC</u>	<u>Retail</u>
AN	63.0	66.150	72.750	68.520	71.950	78.550
TSP	45.0	47.250	52.000	66.400	57.650	62.400
SP	25.0	26.650	29.350	31.200	32.520	35.220
DAP	-	-	-	93.000	95.250	100.000

The STEC price is the price at which dealers buy, but it is also the price at which favorably situated farmers can buy from parastatals (e.g., the Government's Office of Cereals). Thus, private dealers are at a competitive disadvantage. Fertilizer prices involve

subsidies averaging about 50% of the cost. These levels probably are not sustainable in the long run. Part of the fertilizer subsidy cost appears to be due to above world market costs of some domestic fertilizer.

Table 4 below shows 1972, 1981, 1984, 1985 and recently announced 1986 prices of soft wheat, durum, barley and fertilizer in dinars/MT. Grain prices have been adjusted upward more than fertilizer prices during this period. As a result, price relationships now are more favorable than in the early 1970s, when fertilizer consumption was expanding fairly rapidly. Since 1972, prices of soft wheat have been increased over 270%, barley 290% and durum 230%, while TSP fertilizer increased only 73% and AN by about 160%. The price increase for ammonium nitrate at the Office of Cereals (OC) is lower for farmers who can buy at OC since they, in effect, get fertilizer at the same wholesale price paid by dealers and cooperatives. The current situation appears to justify a somewhat higher rate of increase in fertilizer than crop prices in the next few years as subsidy costs are being reduced.

Table 4

Tunisian Cereals Prices
(Dinars / MT)

<u>Commodity</u>	<u>1972</u>	<u>1981</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Durum Wheat	48.00	96.00	140.00	150.00	160.00
Soft Wheat	43.00	87.00	140.00	145.00	160.00
Barley	28.00	70.00	100.00	105.00	110.00
Ammonium Nitrate	30.00	50.00	72.75	72.75	78.55
TSP	36.00	36.00	52.00	52.00	62.40

The current official policy is to gradually eliminate all subsidies. However, for Tunisian farmers to compete in the absence of subsidies they must have available to them the least expensive and most suitable inputs and crop management systems. Several activities, planned by the Ministry of Agriculture to help meet these needs for increased efficiency of input use, are supported by the PL 480 self-help program and other U.S. development assistance. These include:

- a large scale soil and foliar analysis service based on a

large program of on-farm trials to correlate soil analysis results with yields response to fertilizer;

- evaluation and on-farm testing of weed management systems that depend less on use of costly herbicides; and,

- evaluation and dissemination of higher yielding and more fertilizer responsive varieties of cereal crops along with food/forage legumes and information on suitable rotations.

While it is evident that the GOT is increasingly sensitive to the role of price incentives in stimulating agricultural production and less capable of underwriting the costs of agricultural input subsidies, much more needs to be done in establishing responsive, targeted market mechanisms. First, the GOT must continue the initiatives introduced in 1985 to encourage wider participation by the private sector in the distribution of fertilizer. Second, the GOT must improve its analytical capability for understanding the impact of its current pricing and subsidy strategies. Finally, the Ministry of Agriculture, either directly through its extension and research service or indirectly through private mechanisms, must move more vigorously to provide farmers with technical advice which will increase the productivity of the available inputs.

C. Macro-Economic and Agricultural Policy Reforms

1. Overview

While mandated fiscal austerity will take its toll on growth over the next couple of years, prospects are brighter over the medium- and long-term, if the country's development potential is harnessed. Realization of that potential will require considerable structural adjustment, including management of the transition from an oil-based economy. The GOT is implementing some economic reforms, but more should be done.

2. Economic Measures

To address the country's economic difficulties, the GOT has been involved in discussions of needed policy reforms with the IBRD and the IMF, as well as with bilateral donors, including A.I.D. While these reforms will have some benefit in the near-term, the more notable impact will be seen over the medium- and long-term.

A flexible exchange rate policy adopted by the GOT should insure competitiveness of Tunisian exports and constrain imports. The GOT recently engineered over a six week period a 10% devaluation against the French franc and the deutschemark, currencies of important trading partners.

Several export promotion measures have been introduced, including: (1) facilitation of imports for export-producing enterprises; (2) establishment of four export companies, an export promotion fund, and an export credit insurance company; (3) elimination of export licensing for certain products; (4) improvements in export finance; and (5) easing of foreign exchange restrictions for exporters.

In the past, excessive government spending, especially consumer subsidies, public sector investments, and transfers to parastatals, together with a facilitative credit policy, strained Tunisia's balance of payments. In 1986, the GOT plans to (1) limit current spending to a 4% increase, including continuing wage constraints and limits on civil service employment, and (2) reduce capital spending by 11%.

Interest rates have been rationalized somewhat and the Central Bank's discount window operations have been simplified considerably. Moreover, wages continue to be restrained. Finally, price controls in the agricultural sector have been relaxed and energy prices have been hiked to encourage conservation.

3. Needed Additional Structural Adjustments

Uncertainty surrounding the country's political leadership has slowed the pace of reform. The GOT has yet to move boldly forward and much remains to be accomplished. Issues such as pricing, consumer subsidies, and GOT subsidies to parastatal enterprises, as well as divestiture or outright closures of parastatal enterprises, must be addressed. Price signals in the economy, especially product prices, remain highly distorted and excessive government controls continue to dampen private initiative. Moreover, some of the reforms that were introduced did not address the root causes of the problems, and implementation of many was delayed significantly. Postponement of fundamental adjustment has resulted in a narrower margin for maneuver and a narrower range of choices, especially in light of the current balance of payments difficulties.

The IBRD has played a major role in promoting reform. The Bank has committed \$1.5 billion in assistance to Tunisia over the past two decades and has a sizeable project pipeline of \$750 million. Because of the size of its lending program, the IBRD has significant leverage and current balance of payments problems have heightened the urgency for reform. In sharp departure from past practice, the IBRD wants to reach agreement with the GOT on a comprehensive macroeconomic reform package before it proceeds with additional program sector loans.

Recent GOT discussions with the IBRD have gone well. Areas that are being discussed are: salaries, interest rates, exchange rate, credit policies, liberalization of prices and imports, GOT budget,

investment, and agricultural prices. Once agreement has been reached, the IBRD will go forward with agricultural and industrial sector lending programs.

4. Unemployment

Unemployment is a major concern. The official unemployment rate reached 13.7% in 1984, up from 12.9% in 1983. Moreover, these unemployment rates do not reflect the substantial level of under-employment which appears to be rising fast, especially among the young. Job creation which amounted to an estimated 43,000 in 1984, has been insufficient to offset the declining level of emigration, which traditionally served as a safety valve for the labor market. Un- and under-employment have been exacerbated by: the recent expulsion of 20,000 Tunisian workers from Libya; export problems faced by the labor-intensive textiles sector; and a GOT decision to review projects in the public sector investment program which will affect negatively the labor-intensive construction industry.

A number of GOT policies had contributed to the unemployment problem. They include: wage policies; low interest rates which encourage excessive use of capital; investment incentive laws that do little to encourage employment; low producer prices for agricultural products which discourage rural, labor-intensive production; subsidization of energy which stimulated the growth of capital intensive industries; and the comprehensive protection system which affects labor-using export industries adversely. The GOT has taken some major steps to rectify these policies -- e.g., wage restraints, energy price hikes, increases in agricultural producer prices. Notwithstanding these moves, more needs to be done.

5. Agricultural Policy Reform Agenda

Under the CIP, the major policy issue which has been discussed with, but not yet agreed to, by the GOT is a two-stage agreement on fertilizer price reforms.

First, the margin between wholesale and retail prices should be re-established at a level which provides incentives to private dealers. Entry of private dealers will in turn allow access of small- and medium-farmers to fertilizer supplies.

Second, a preliminary agreement in principle has been obtained from the Ministry of Agriculture (MOA) to begin analyzing economic effects of fertilizer price subsidies. The first step will be a collaborative study to be funded from PL 480 proceeds (local costs) and PD&S funds (in this regard, a request to AID/W for funds is

forthcoming). If the analysis is convincing and the GOT agrees to a major reduction in fertilizer subsidies, the effect in the long run could mean net annual savings of up to 30 million dinars. These reforms contribute directly to USAID's overall goal of increasing productivity in the agricultural sector and address serious macroeconomic problems, including budgetary deficits and tight foreign exchange conditions.

The GOT has agreed to the establishment of a Special Account into which it will place local currency generations from the CIP. A covenant to the Agreement provides that a plan for the use of local currency generations be reviewed and approved by USAID. The Mission is currently discussing uses of the Special Account with the Government.

As has been noted, policy issues discussed in negotiating the CIP are part and parcel of ongoing policy dialogue efforts. Stimulating private trade has been a dominant theme in negotiations concerning past PL 430 self-help proposals and the Mission's ongoing private sector project. Liberalizing agricultural prices for both inputs and commodities is a central theme in all programmatic discussions with the GOT. Achieving market interest rates and improving management of credit recovery are at the forefront of discussions surrounding agricultural credit initiatives. Privatization of input delivery through development of farmer cooperatives is an ongoing theme in the small farmer credit program and small scale irrigation initiatives in central Tunisia.

III. CIP IMPLEMENTATION

A. Transactions

The authorized geographic code for this program is 000 (United States). Shipping under this program also carries code 000 and Tunisia.

A.I.D. Regulation 1 calls for formal competitive procurement for public sector entities. The GOT Office of Cereals (OC) has responsibility for developing specifications and issuing an invitation for bids (IFB), as well as arranging delivery schedules, evaluating offers, making awards, and monitoring delivery and receipt. Official(s) responsible for these functions within the OC will be designated prior to the initiation of the procurement process. The OC already has arranged for Pacific Cargoes, the Government's freight forwarder to assist it in preparing bidding documents for this emergency procurement. Specifications will be mutually agreed upon prior to tendering. IFB and shipping terms will conform to A.I.D. regulations. To this end, the GOT will submit to A.I.D. within thirty (30) days after the signing of the Program Grant Agreement a proposed IFB for A.I.D. review and

approval. Subject to GOT and A.I.D. agreement, procurement will be conducted on an FOB or FAS basis. Upon approval by A.I.D. of the IFB and designation of the shipping company, the GOT will inform A.I.D. of the proposed delivery schedule and request advertising of the tender in appropriate U.S. publications. The tender will be issued in Washington, D.C. by the Embassy of Tunisia.

Actual tendering will take place in Washington, D.C. which will result in a shorter bidding and award period and will enable suppliers to offer lower prices than would be in the case with in-country tendering where extended bid validities are required to accommodate bid transmittal and approval time. AAM/OS/ANE has determined that the Embassy of Tunisia has the capability to receive and evaluate any and all bids received. The Embassy will be assisted by Pacific Cargoes in evaluating offers as they relate to cargo preference requirements, i.e. 50/50 shipping.

B. Commodity Handling

Tunisian port and warehouse capabilities are considered adequate to receive and store bulk feedgrains under the CIP agreement. Grain imports are received through five Tunisian ports spanning practically the entire coastline. The major share arrives in La Goulette.

La Goulette has bulk-grain discharge facilities which received a record 691,154 Metric Tons (MT) in 1984. Imports during the second half of 1986 and first half of 1987 are likely to be even higher than that. This port serves Tunis and the surrounding densely populated area; bulk-grain handling facilities include pneumatic discharge equipment with a capacity of 300 MT/hour; port storage includes a bulk grain silo complex with capacity of 30,000 MT and 248,000 square meters of enclosed warehouse area. Grains can be dispatched directly to inland storage facilities and mills via rail or truck at average rate of 130 MT/hour (bagged commodities) or 200 MT/hour (in bulk).

La Goulette can handle ships of up to 24,000 tons. In 1980, a World Bank study suggested that La Goulette could efficiently import 450,000 MT of grain per year, a volume that had already been surpassed. Other ports unload less than 600 MT of grain per day.

A new port facility with manual unloading has been operational since January 1985 in Rades, near La Goulette, providing slight relief. The Port of Tunis is used mainly for smaller vessels carrying general cargo. Bizerte, the port serving the northern area, accommodates general cargo vessels of 20,000 MT with draft up to 9 meters and bulk grain carriers of 17,500 MT, with draft up to 8.5 meters. Storage facilities include 5,362 square meters of enclosed warehouse area and one bulk grain silo complex of 20,000 MT

capacity. Grain discharge of 500 to 600 MT/day is performed manually. Unloading and storage capacity in Bizerte is being improved. In 1986, Bizerte will, like La Goulette, be able to unload 300 MT/hour of grain. A 30 month, 42 million dinar project was begun in August 1984 for 100,000 MT of new grain storage and rehabilitation of 54,000 MT of existing storage in the ports of Bizerte, Gannouche, Beja, Gafsa, Sfax and Kaalat Sghira. By 1987, Bizerte is scheduled for automatic unloading facilities, for unloading cereals at the rate of 300 MT/hour. Based on past performance handling PL-480 grains, the OC can be expected to carry out appropriate programming/scheduling for CIP grain purchases and deliveries.

C. Feedgrain Processing and Distribution

The GOT will assure that CIP-financed imports clear customs promptly and in any case no later than 90 days. The GOT will distribute the corn, along with other supplies of emergency feedgrains, to its existing chain of public and privately owned and operated feed mills which will process it on commission. Thereafter, the Government will sell and distribute the animal feed through OC outlets, because there are no private marketing channels for this commodity.

The Government is currently finalizing arrangements for the distribution and sale of all emergency feedgrains of which the CIP is part. It is anticipated that roughly 10% of the emergency grains will be distributed free of charge to the poorest farmers. Another roughly 20% will be sold to farmers who receive subsidized Government loans. The balance will be sold at existing, somewhat subsidized prices.

While A.I.D. has concerns about the sale of these feeds at less than market value, they constitute only a small and commingled portion of the total grain used and sold. Accordingly, it is not feasible to request that A.I.D.-supplied grains be sold at a different price from other stocks. Nor it is reasonable to request a change in the Government's overall program as a result of this "one time" transaction.

D. Budget

The CIP budget consists of \$4,774,000, available for CIF purchases of approximately 32,000 metric tons of corn.

E. Special Account

As a condition to initial disbursement of the CIP, the GOT will establish a Special Account for generated counterpart funds in the Central Bank of Tunisia and establish procedures for its operation, including reporting to USAID.

All transactions financed by the CIP will generate counterpart local currency to be placed in the Special Account. Local currency in the Special Account will be used to finance development activities mutually agreed by the GOT and the USAID. The Government has agreed to replenish the Special Account by the amount of the subsidy which will be involved in distributing and selling the animal feed. As a result the Account will be equivalent to the market value of the corn.

F. A.I.D. Staffing and Monitoring

CIP administration will be the responsibility of the Mission's agricultural development officer, assisted by one or more foreign service nationals, the controller, and Regional Legal Advisor. They are fully capable of CIP execution, including interim and annual accounting and monitoring.

SER/AAM/OS/ANE will provide necessary backstopping in areas including competitive procurement, commodity eligibility, transportation, specifications etc. The AID/W Office of Financial Management will provide support on financial and disbursement matters. ANE/PD will monitor overall implementation and provide backstopping assistance, as needed.

The Mission will monitor the economic and agricultural policy aspects of the program in the course of its on-going policy dialogue with the GOT. These discussions will include assessment of the planned two-stage agreement on fertilizer price reforms.

Monitoring arrangements for the actual CIP are as follows. Processing of corn into animal feed and getting it into normal marketing channels will be considered first usage for monitoring purposes. Thus the Mission plans to follow the CIP-financed grain to the mills to assure it is milled for animal feed.

When the Mission and GOT agree on arrangements for the Special Account they will include reporting on actual uses.

G. Evaluation

A.I.D. does not plan to formally evaluate the CIP. However, USAID/Tunis will monitor implementation, monitor processing and selective distribution of the feedgrains, and review GOT reports on uses of the Special Account. The Mission will collect this information to assess the overall impact of the CIP in FY 87.

Furthermore, in conjunction with the overall A.I.D. program, GOT and Mission representatives will meet periodically to discuss the status of the economy and associated economic issues. These discussions

may include implementation of the CIP, the contribution of the CIP to resolution of these concerns, and the use of local currency generations in the Special Account.

IV. LEGAL PROVISIONS

A. Local Currency Special Account

In accordance with Section 609 of the Foreign Assistance Act of 1961, as amended, the Government of Tunisia has agreed to establish a Special Account at the Central Bank of Tunisia and to deposit therein currency of the Government of Tunisia in the amounts equal to proceeds accruing to the government, or any agency thereof, as a result of the sale or importation of eligible items, i.e., corn. The Government will replenish the Account to offset any subsidy it offers in connection with the distribution and sale of CIP commodities.

Funds in the Special Account will be used for such development purposes as are mutually agreed upon by A.I.D. and the Grantee.

B. Conditions Precedent and Covenants

1. Condition to Initial Disbursement: Prior to any disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in satisfactory form and substance evidence that a Special Account has been set up in the Central Bank for local currency generated by the importation or sale of eligible items.

2. Notification: When A.I.D. has determined that the condition precedent has been met, it will promptly notify the Grantee.

3. Covenant: The GOT will covenant to submit to USAID/Tunis, for its review and approval, a plan for the use, for development purposes, of the Special Account, within the near future. (The Mission is currently seeking to relate the use of CIP for improving agricultural productivity.) The plan will include provisions for periodic reporting on such uses to USAID.

C. General Terms

1. Unless A.I.D. otherwise agrees in writing, commodities and related services financed under the grant shall have their source and origin in the United States.

2. The grant shall be subject to such other terms and conditions as A.I.D. may deem advisable.

D. Shipping

The 50/50 shipping requirement is spelled out in Section 201.15 of A.I.D. Regulation 1. Experience in other countries has shown that public sector importers in most cases have taken advantage of A.I.D. financing of freight on U.S. flag vessels rather than use host country foreign exchange to pay for freight charges.

Tunisia is presently served by two U.S. flag carriers. They are Farrell Lines, Inc. and Lykes Brothers Steamship Company, Inc. Ports serving Tunisia are not presently congested; the availability of these two American carriers, as well as additional U.S. flag carrier(s) which may be available at the time of CIP tenders, should assure that no demurrage charges will accrue even at busier times for those ports.

USAID/Tunis will discuss the quarterly reporting requirement of the arrival of A.I.D. financed shipments with the GOT and will assist initially in completing the reports.

ANNEX

STATUTORY CHECKLIST

- I. COUNTRY CHECKLIST
- II. STANDARD ITEM CHECKLIST
- III. NON-PROJECT ASSISTANCE CHECKLIST

5C(1) -.COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481(h)(1); FY 1985 Continuing Resolution Section 528. Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents or from entering the U.S. unlawfully? No.
2. FAA Sec. 481(h)(4). Has the President determined that the recipient country has not taken adequate steps to prevent (a) the processing, in whole or in part, in such country of narcotic and psychotropic drugs or other controlled substances, (b) the transportation through such country of narcotic and psychotropic drugs or other controlled substances, and (c) the use of such country as a refuge for illegal drug traffickers? No.
3. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government? No.

4. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? No.
5. FAA Sec. 620(a), 620(f), 620(D); FY 1985 Continuing Resolution Sec. 512 and 513. Is recipient country a Communist country? (If so, has the President determined that assistance to the country is important to the national interests of the United State Will assistance be provided to Angola, Cambodia, Cuba, Laos, Syria, Vietnam, Libya, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver. No.
6. FAA Sec. 620(j) Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property? No.
7. FAA Sec 620(1). Has the country failed to enter into an agreement with OPIC? No.
8. FAA Sec. 620(o), Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? No.
- (b) If so, has any deduction required by the Fishermen's Protective Act been made?
9. FAA Sec. 620(q), FY 1985 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of No.

any A.I.D. loan to the country? (b)
Has the country been in default
for more than one year on interest
or principal on any U.S. loan
under a program for which the
appropriation bill (or continuing
resolution) appropriates funds?

10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)
11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?
12. FY Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)
13. FAA Sec, 620A; FY 1985 Continuing Resolution Sec. 521. Has the President determined that the country (a) grants sanctuary from prosecution to any individual or group which has committed an act

Yes. Taken into account by the Administrator at the time of approval of Agency OYB.

No.

Tunisia is current in its payments.

No.

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of international terrorism, or (b) otherwise supports international terrorism? Has the government of the recipient country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed or is being sought by any other government for prosecution for any war crime or act of international terrorism?

14. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? No.
15. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No.
16. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) No.
17. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported illegally (or attempted to export illegally) from the United States any material, equipment, or technology No.

which would contribute significantly to the ability of such country to manufacture a nuclear explosive device?

18. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)
- No.

19. FY 1985 Continuing Resolution. If assistance is from the population functional account, does the country (or organization) include as part of its population planning programs involuntary abortion?
- Assistance is from the ESF account.

20. FY 1985 Continuing Resolution Sec. 530. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?
- No.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

Not applicable.

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2. Economic Support Fund Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

No.

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5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

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

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? Commodity procurement under the grant will be according to A.I.D. established procedures.

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

3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? Tunisia does not discriminate against U.S. marine insurance companies.

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of an agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) No such procurement is contemplated.

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries which receive direct economic assistance under the Construction and/or engineering services will not be required.

FAA and which are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries?

6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates? No.
7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? No technical assistance will be provided under this grant.
8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? Yes.
9. FY 1985 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States. No such contract is contemplated. However, if a direct contract is executed, it will contain such a provision.

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used? Not applicable.
2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? Not applicable.
3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million? (except for productive enterprises in Egypt that were described in the CP)? Not applicable.

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? Program is grant financed
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? Not applicable.
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes.
4. Will arrangements preclude use of financing:
 - a. FAA Sec. 104(f); FY 1985 Continuing Resolution Sec. 527:
(1) To pay for performance of abortions as a method of family Yes.

- planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as a method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion? Yes.
- b. FAA Sec. 488. To reimburse persons, in the form of cash payments, whose illicit drug crops are eradicated? Yes.
- c. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? Yes.
- d. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes.
- e. FAA Sec. 662. For CIA activities? Yes.
- f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes.
- g. FY 1985 Continuing Resolution, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? Yes.
- h. FY 1985 Continuing Resolution, Sec. 505. To pay U.N. assessments, arrearages or dues? Yes.
- i. FY 1985 Continuing Resolution, Sec. 506. To carry out provisions of FAA Section 209(d) (Transfer of FAA funds to multilateral organizations for lending)? Yes.

- j. FY 1985 Continuing Resolution, Sec. 510. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? Yes.
- k. FY 1985 Continuing Resolution, Sec. 511. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? No.
- l. FY 1985 Continuing Resolution, Sec. 516. To be used for publicity or propaganda purposes within U.S. not authorized by Congress? Yes.

3(A)2 NON-PROJECT ASSISTANCE CHECKLIST

The criteria listed in part A are applicable generally to FAA funds, and should be used irrespective of the Program's funding source. In part B a distinction is made between the criteria applicable to Economic Support Fund Assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

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

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1985 Continuing Resolution Sec. 525: FAA Sec. 634A

Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project assistance.

An Advice of Program Change and Activity Data Sheet will be submitted to Congress.

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

No further legislative action is required.

3. FAA Sec. 209. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so, why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs.

This program is not amenable to execution as part of a regional multilateral program. Assistance is not expected to encourage regional development programs.

4. FAA Sec. 601(a). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and strengthen free labor unions.

(a) This program will marginally increase the flow of international trade by providing foreign exchange for the emergency purchase of feedgrains; (b) It will foster private initiative and competition in the in the sale and distribution of agricultural inputs; (c), (d) and (e) program will have some impact in these areas.

5. FAA Sec. 601 (b). Information and conclusions on how assistance 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). To the extent that trade patterns between Tunisia, and the U.S. continue and can be expanded, we foresee this program having a positive effect.
6. FAA Sec. 612(b), Sec. 636(h); FY 1985 Continuing Resolution 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 United States are utilized in lieu of dollars. This program essentially provides foreign exchange for the purchase of U.S. feedgrains.
7. FAA Sec. 612(d). Does the United States own excess foreign currency of the country and, if so, what arrangements have been made for its release? No.
8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes.
9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds? Not applicable.
10. FY 1985 Continuing Resolution Sec. 536. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution? No.
- B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE
1. Nonproject Criteria for Economic Support Fund Assistance

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

It will promote economic stability by providing vital foreign exchange required for emergency drought relief

To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA?

Yes.

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

No.

(c) FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?

Yes.

(d) ISDCA of 1985 Sec. 205. Will ESF funds made available for commodity import programs be used for the purchase of agricultural commodities of United States-origin? If so, what percentage of the funds will be so used?

Yes, 100%.

(e) ISDCA of 1985 Sec. 801. If ESF funds will be used to finance imports by an African country (under a commodity import program or sector program), will the agreement require that those imports be used to meet long-term development needs in those countries in accordance with the following criteria?

While imports will be for short-term emergency assistance, local currency generations will be used to meet longer-term agricultural policy objectives

(i) spare parts and other imports shall be allocated on the basis of evaluations, by A.I.D., of the ability of likely recipients to use such spare parts and imports in a maximally productive, employment generating, and cost effective way;

(ii) imports shall be coordinated with investments in accordance with the recipient country's plans for promoting economic development. A.I.D. shall assess such plans to determine whether they will effectively promote economic development;

iii) emphasis shall be placed on imports for agricultural activities which will expand agricultural production, particularly activities which expand production for export or production to reduce reliance on imported agricultural products;

(iv) emphasis shall also be placed on a distribution of imports having a broad development impact in terms of economic sectors and geographic regions;

(v) in order to maximize the likelihood that the imports financed by the United States under the ESF chapter are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange uses;

(vi)(A) seventy-five percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in subparagraph (B), shall be available only for use in accordance with the agreement for economic development activities which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under sections 103 through 106 of the FAA:

(B) the agreement shall require that the government of the country make available to the United States Government such portion of the amount deposited in the special account as may be determined by the President to be necessary for requirements of the United States Government.

A Special Account will be established for local currency generations which will be used in accordance with the U.S. and Government of Tunisia (GOT) agreement and consistent with FAA policy directions.

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(f) ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin American (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States?

:
No.

(g) 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?

Yes.

2. Nonproject Criteria for Development Assistance

(a) FAA Sec. 102(a); 111; 113; 281(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?

Not applicable.

(b) FAA Sec. 103, 103A, 104, 105, 106 107. Is assistance being made available: (include only applicable paragraph which corresponds to source of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source.)

Not applicable.

(1) (103) for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; (103A) if for agricultural research, full account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

(2) (104) for population planning under sec. 104(b) or health under sec. 104(c); if so, extent to which activity emphasizes low-cost,

health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems and other modes of community research.

(3) (105) for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people in developing countries in such disciplines as are required for planning and implementation of public and private development activities.

(4) (106) for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is: (i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of geological and geophysical survey work to locate potential oil, natural gas, and coal reserves and to encourage exploration for potential oil, natural gas, and coal reserves.

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

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