R. Ashton

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AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C. 20523

# PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

TUNISIA: Commodity Import Program
(664-K-602)

April 22, 1987

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CLASSIFICATION:

| AID 1120-1 PAAD | AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT | 1. PAAD NO. GRANT 664-K-602 (664-0344 |
|---|---|---|
| | | 2. COUNTRY TUNISIA |
| | | 3. CATEGORY Commodity Standard Financing Procedure |
| | | 4. DATE March 1987 |
| 5. TO: Julia C. BLOCH | | 6. OYB CHANGE NO. Not Applicable |
| 7. FROM Charles F. Weden Director, USAID/Tunisia | | 8. OYB INCREASE None TO BE TAKEN FROM: ESF |
| 9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 8,258,000 | | 10. APPROPRIATION - 72-117/81037 QES7-87-37664-KG-32 |

| 11. TYPE FUNDING | 12. LOCAL CURRENCY ARRANGEMENT | 13. ESTIMATED DELIVERY PERIOD | 14. TRANSACTION ELIGIBILITY DATE |
|---|---|---|---|
| ☐ LOAN ☒ GRANT | ☐ INFORMAL ☒ FORMAL ☐ NONE | 5/87 - 9/87 | Authorization Date |

15. COMMODITIES FINANCED

| 16. PERMITTED SOURCE | | 17. ESTIMATED SOURCE | |
|---|---|---|---|
| U.S. only: | $8,258,000 | U.S.: | 8,258,000 |
| Limited F.W.: | | Industrialized Countries: | |
| Free World: | | Local: | |
| Cash: | | Other: | |

18. SUMMARY DESCRIPTION

To assist with the Tunisian import requirements for animal feed cereals and to help ameliorate foreign exchange shortages, this grant provides a portion of the foreign exchange required to purchase soya from the U.S.

Local currency generated by local sales of the soya will be jointly programmed to support the Tunisia Structural Adjustment Program and AID-GOT development activities, both on-going and planned.

| 19. CLEARANCES | | DATE |
|---|---|---|
| REG/DP | B. Sidman | 4/10/87 |
| REG/GC | J. Silverstone | 4/6/87 |
| AA/PPC | D. Adams | 4/7/87 |
| M/FM | C. Christensen | 4-21-87 |
| M/SER/OP/OS: | MThompson | |
| ANE/MENA | G. Kamens | 4/8/87 |
| ANE/PD | P. Bloom | 4/9/87 |
| DAA/ANE | R. Bell | |

20. ACTION

☐ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE | DATE

Assistant Administrator, ANE

TITLE

CLASSIFICATION:

# EXECUTIVE SUMMARY

## Background

Since achieving independence in 1956, the Government of Tunisia has maintained consistently friendly relations with the United States in a region of the world in which many governments are openly hostile to U.S. interests. The GOT has also earned a reputation for progressiveness, being a leader among Arab states on issues such as womens rights and tolerance of political opposition, and having largely devoted its resources to social improvements, including education, health care, and economic infrastructure.

## Recent Economic Trends

The Tunisian economy developed rapidly during the 1960s and 1970s, with GDP growth per annum averaging 7% during the latter decade. During the 1980s, however, it became apparent that the economy was entering a new period of much slower growth. GDP growth averaged only 3.7% between 1980 and 1985. Concurrently high annual rates of population increase (2.6%) resulted in unemployment problems, especially among politically volatile school leavers and young heads of household, which gave further impetus to the need for rapid revival of healthy GDP growth rates. The GOT was also faced at this time with a rapid deterioration in its external accounts and reacted with a traditional package of import controls and budget reductions in 1984/85. This regime of controls assumed a rapid recovery in earnings from basic exports, which unfortunately did not occur.

During 1986, economic decline accelerated because of a series of external shocks: (a) the full effect of severance in Tunisian-Libyan relations (August 1985), Libya being an important market for Tunisian exports and labor; (b) a disastrous cereals harvest of less than one-half a normal years crop; (c) rapid decline in petroleum revenues; (d) decline in tourism revenues because of tensions in the Mediterranean region, and (e) continue softness in markets for phosphate products, Tunisia's second most important export. GDP growth was nil during 1986, and foreign exchange reserves amounted to less than two weeks of imports by the end of 1986.

When external factors accelerated economic decline during 1986 the Government, led by the Ex-Minister for Planning and Finance and now Prime Minister Rachid Sfar recognized that the fundamental causes for under performance by the economy were structural. Tunisia, had pursued a development strategy based on extensive state-direction of the economy with foreign exchange access tightly controlled, domestic production heavily protected, and many prices subject to state approval, as was private investment. In addition, the GOT accumulated a large inventory of costly, and often wasteful, subsidies for both producer and consumer goods. While these practices were affordable in earlier days, it became clear in mid 1986 that new ways of doing business were necessary as the foreign exchange reserves had fallen to nearly zero.

The GOT recognized that continuance of pursuing growth objectives under a state-directed strategy for management of the economy had not been successful in light of existing economic realities and that politically and socially dangerous economic stagnation would result if reforms were not forthcoming. The GOT has now recognized the need for far reaching economic reforms to move toward a market-driven economy over a short period that will be internationally competitive, and capable of generating the increased exports required for a return to acceptable growth levels in GDP.

Economic Adjustment Requirements and Responses

Consequently, in August 1986, the GOT committed itself to a broad range of policy reforms which has become known as the Structural Adjustment Program. Specific reforms, programmed to occur on a five year schedule, include decontrol of most prices, progressive reduction of subsidies, privatization of a major portion of parastatal companies, elimination of investment contracts, increased reliance on markets for allocation of capital, and reduced protection for domestic production. This program of policy change in accordance with a specifically articulated timetable skewed to the front end of the program, was undertaken after extensive consultations with the IBRD. USAID is participating in this element of the Recovery Program through the APIP, PL-480 and this Project. The GOT has received extensive support in the donor community for the program, including from the IBRD, which is financing two sector loans in the $150 million range, and from the IMF, the French, Italian, West German and Japanese governments, as well as from USAID.

At present, one of the most serious short-term obstacles for the GOT in meeting its Structural Adjustment objectives is the financing of its current external account deficit. Recognizing that further recourse to high levels of external commercial borrowing on increasingly adverse terms would not be a solution to the problem, the GOT entered into a Standby Arrangement with the IMF for approximately $125 million. The IMF Standby was approved, however, in recognition of a potential shortfall in financing of current account deficit for CY 1987 of approximately $450 million. While that figure has been extensively debated, most recently in Paris and may be reduced by better-than-anticipated growth in tourism and exports and by a slower-than-forecast reconstitution of foreign exchange reserves financing the current account deficit will remain one of the GOT's principal impediments for implementing structural adjustment at the agreed on pace. Failure to finance the deficit would force a severe constriction of imports, delaying the revitalization of the agricultural and industrial sectors which depend on imports to rejuvenate their productive capacities. Economic and political consequences of inadequate recovery by these sectors include recession, and deterioration in social and economic conditions that would make implementation of the far reaching and politically risky Structural Adjustment Program exceedingly difficult, if not impossible.

Donor organizations having interests in Tunisia have now generally realigned their programs to support Structural Adjustment. In view of the fact that financing the current account deficit is one of the GOT's most immediate serious problems, and that recourse to commercial financing is both constrained under the IMF Standby, and not financially advisable, most donors are orienting their programs toward providing relief for the current account deficit problem by permitting use of funds for rehabilitation and maintainance as well as program lending. The Government of Italy has made an important financial commitment along this line to date, with a $100 million credit for Tunisian imports from Italy. The African Development Bank is considering $120 million in fast disbursing program loans in the industrial and tourist sectors. Import credit facilities are also being arranged with the French, West German, Belgian and, possibly, the Japanese governments.

U.S. Response

USAID, as part of a revised strategy, proposes in this PAAD to commit approximately 50% of its ESF funds to a Commodity Import Program (CIP) that will directly assist the GOT by easing its current account deficit problem (see PAAD, Section II-D), and that will provide additional assistance to the GOT in implementing the Structural Adjustment Program through the programmed use of local currency generation. (See PAAD, Sections VI-B and VI-C). The 1987 CIP is proposed for an amount of $8.258 million to be used for importing US-manufactured soya-bean pellets, an import required for fabrication of animal feeds in Tunisia by private feed mills. This is a new market for U.S. soya products, the normal sources being from Latin American.

The 1987 CIP will provide an essential commodity to Tunisia's Private Sector animal feed industry. The industry in Tunisia has developed under conditions of heavy subsidization and consequent high budgetary cost to the GOT. GOT budgetary costs for subsidizing animal feed components since 1980 have amounted to TD 150 million equivalent to roughly $200 million, an amount exceeding the recently granted IBRD Agricultural Sector Adjustment Loan. Subsidization of imported feed components has also damaged domestic production or feed component substitutes and the development of forage crops. Under the 1987-CIP, the GOT is committed to permanent removal of animal feed subsidies by 1988. Given current low international prices for animal feed components, price adjustments required for subsidy removal will be relatively modest, and will not damage domestic production of meat, poultry, and eggs. Most animal feed fabrication in Tunisia is already private; under the CIP, the GOT is committed to examine the feasibility of privatization of the two mills run by a parastatal company (for a full discussion of the animal feed subsector, see PAAD, Annex A).

Local currency proceeds under the CIP will be used in direct support of Structural Adjustment actions, primarily in agriculture but also in the industrial area. The Structural Adjustment Program as it relates to the agricultural sector aims to achieve the following objectives: (a) production of larger quantities of food at lower real costs for both domestic consumption and export; (b) a higher level of private participation in the sector at all levels; (c) increase the employment generation capacity of the sector through improved resource allocations resulting from correct pricing of inputs; and (d) decrease budgetary burdens currently imposed on the GOT by the agricultural sector. USAID's CIP, while targeted specifically to the animal feed subsector, will inter alia assist the agricultural sector through the use of local currency generations in achieving the objectives outlined above. USAID/Tunis has recently completed design of the Agricultural Policy Implementation Project (APIP), which has been presented to the GOT, and for which a project agreement will be signed shortly. This project will provide hard data and analysis on policy changes, implementation of which will be financed by local currency generated under the CIP.

The steering committee for the APIP Project will constitute the CIP Disbursement Coordinating Committee. This group is composed of the same members as the Monitoring Committee for the IBRD-financed Agricultural Sector Adjustment Loan. This Committee, because of its intimate association with the Structural Adjustment Program, both through monitoring of ASAL, and through its responsabilities for directing policy formulation activities under APIP, is well positioned to identify, on a priority basis, Structural Adjustment actions constrained by lack of financial resources. The Committee will propose, for concurrence by USAID, local currency funds to be used in relaxing constraints to structural adjustment implementation. The CIP Disbursements Coordinating Committee will propose uses of local currency proceeds based on the following: (a) support of policy reforms incorporated in the Structural Adjustment Program, (b) contribution to GDP growth over the short-to-medium term; (c) contribution to growth of employment; and, (d) impact in reducing Tunisia's current account deficit.

The 1987 CIP, along with APIP, PL 480-Title I, and the proposed Section 416 safety net program, represents USAIDs best effort in assisting the GOT with implementation of Structural Adjustment, and is consistent with the revised USAID/Tunis development strategy. The dollar side of the CIP will provide direct relief to one of the GOT's most serious problems in implementing structural adjustment, its current account deficit. The CIP includes elements of important policy reform, and assures that the use of local currency proceeds will be used in furthering Structural Adjustment objectives.

## ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| APIP | AID Agricultural Policy Implementation Project |
| ASAL | Agricultural Sector Adjustment Loan or Program |
| CIP | Commodity Import Program |
| D/PSAE | Directorate of Planning, Statistics and Economic Analyses (MOA) |
| EEC | European Economic Commodity |
| ERP | Effective Rates of Protection |
| FAO | Food and Agriculture Organization |
| GDP | Gross Domestic Product |
| GOT | Government of Tunisia |
| IBRD | International Bank for Reconstruction and Development |
| IFPRI | International Food Policy Research Institute |
| IMF | International Monetary Fund |
| MCPAI | Ministry of Crop Production and Agro-Industry |
| MOA | Ministry of Agriculture |
| MOCI | Ministry of Commerce and Industry |
| MOPF | Ministry of Plan and Finance |
| OC | Office of Cereals |
| PAAD | Program Assistance Approval Document |
| SAP | Structural Adjustment Program |
| SDR | Special Drawing Rights |
| SONAM | Société Nationale de Motorculture |
| TD | Tunisian Dinar |
| WB | World Bank |

# Tunisia FY 87 CIP

## Table of Contents

## I. Introduction

The design of the Commodity Import Program (CIP) has been done through a collaborative effort between USAID and key officials of the Government of Tunisia (GOT) in the Ministry of Agriculture and Ministry of Planning and Finance. Frequent working sessions were held during the design phase, in which the Office de Céréales (OC) of the Ministry of Agriculture served as the chief entry point for determining the most appropriate commodity for importation. On the determination of uses of the local currency generated by the CIP, frequent discussions have been led by the Director General of Cooperation with the Exterior, Ministry of Plan and Finance (MOPF).

In addition to USAID/Tunisia staff, AID/W assistance was used in writing the Program Assistance Approval Document (PAAD). Key documents that were consulted included the GOT Statistics Financières (Dec, 1986), GOT/IBRD Medium-Term Agricultural Sector Adjustment Program (1986), USAID/Tunisia Agricultural Sector Strategy Statement (1987), and the GOT Seventh Plan of Economic and Social Development, 1987-1991 (1986).

The CIP has been developed as a means of providing continuing support for the Government of Tunisia and assistance with financial difficulties faced by the nation. AID's efforts are tied to Tunisia's commitment to wide-ranging measures to restructure the economy and make needed policy adjustments. The ability to help finance these adjustments, both with foreign exchange and a pool of local currency, makes the CIP an attractive mechanism of economic support for Tunisia.

## II. SUMMARY AND RECOMMENDATION

### A. Summary

Tunisia is faced with severe balance of payments difficulties, brought on by the imbalances in exports and imports, growing unemployment and last year's drought. The nation will not generate sufficient foreign exchange for the purchase of imported foodstuffs and productive goods essential to feed the populace and to support the needs of the economy.

This shortfall in the trade balance is estimated for 1987 to be about $635 million. In the near term, the Government of Tunisia (GOT) will meet it through borrowings, grants, investment flows, and transfers. Yet these temporary measures are not sufficient and Tunisia is embarking on an ambitious, far-reaching effort to revitalize the economy. Major revisions are being made in the manufacturing, farming and service industries of the country. These changes are spelled out in two principal documents; Seventh Plan of Social and Economic Development, 1987-1991, Dec, 1986 and Medium-Term Agricultural Sector Adjustment Program, Sept, 1986. Revisions in the current regulatory and operating system center around a phased privatization and deregulation effort throughout the country, with the GOT relinguishing control of prices, liberalizing productive imports, promoting exports, divesting certain business enterprises, reducing subsidies, and allowing market forces to determine the structure of the Tunisian economy.

This massive effort on the part of the GOT is being made throughout the rest of the decade, with the support of the World Bank, International Monetary Fund, USAID, and other donor organizations. Support is coming in the form of loans, grants, technical assistance, training and commodities. The success of the efforts will be measured by the reduction of the GOT budget and participation in business activities, improved production in the agriuclutre and manufacturing sectors, and an improved service sector -- all responding to the demands of market forces and adjustments to those areas where Tunisia has a comparative advantage.

### B. Recommendation

To assist with Tunisia's balance of payments difficulties and to support the GOT structural adjustment program, USAID/Tunisia proposes to grant the sum of $8.258 million for the procurement of needed feed grain. It has been determined that the purchase of soya, to be manufactured into poultry and dairy feed, would be the most appropriate good at this time under the FY 1987 Commodity Import Program for Tunisia. Soya, totaling an estimated 40,000 metric tons, will be purchased. This constitutes about 39 percent of the annual requirement for soya.

The soya will be sold to feed mills through the GOT Office of Cereals (OC), part of the Ministry of Agriculture. Local currency equivalent to the sales proceeds at official sales price, less actual and documented handling/distribution charges incurred by OC, will be deposited in a special account. These monies will be used to assist the GOT in carrying out the structural adjustment program, supporting such activities as: policy reform measures, expanded credit facilities, training and publicity, establishment of farm input distribution systems, improved water management systems, and others. Decisions on usage will be jointly made by USAID/Tunisia and the CIP Coordinating Committee of the GOT.

Given the US desire to provide support to Tunisia and to the Structural Adjustment Program being embarked upon, it is recommended that a Commodity Import Program grant be made to the GOT for FY 1987, in the amount of $8.258 million.

## III. POLITICAL SITUATION

### A. Background

Tunisia, geographically the smallest country in the Maghreb and the first to gain independence, has adhered to a moderate and strongly pro-Western foreign policy since the establishment of an independent national state in 1956. Tunisia's constitution establishes a strong central government that gives discretionary powers to the President, who appoints a Prime Minister and a Ministerial Council, which serves as a "Cabinet." The current President, Habib Bourguiba -- the father of the nationalist movement and ruler since independence -- became President-for-Life in 1974. Bourguiba's unique place in the history and political development of modern Tunisia makes the inevitable transition to new leadership a significant one and contributes to the current atmosphere of political uncertainty in Tunisia.

Tunisia's rapid economic development and emphasis on mass education has dramatically transformed the society in the span of three decades. However, population growth, while lower than in other Maghreb countries, caught up with the economic expansion in the late seventies. Rising unemployment and increasing demands for social services have heightened social tensions. These factors combined with the government's limited ability to fund its subsidies of staple food items have contributed to a growing social malaise in Tunisia in this decade. The government was severely challenged in January 1984 when "bread riots" erupted throughout the country over the GOT's decision to double bread prices, which were highly subsidized. The government was forced to rescind the price increase and to ask the Tunisian military to step in and restore order.

### B. US - Tunisia Relations

Relations between the U.S and Tunisia have been, and remain, very good. Full and open diplomatic, economic, and social linkages exist between the two nations. Tunisia's importance to the U.S. arises from its strategic geographic location and the GOT's willingness to work with the U.S. toward the goal of peace in the region. In the past two years the GOT has successfully weathered two external events with potentially severe domestic political repercussions--the Israeli bombing of PLO headquarters and the U.S. airstrike on Libya. Overall, the U.S. objective is to maintain its close ties with an independent, pro-Western government. The U.S. continues to encourage Tunisia's policy of social and economic development within a framework of political stability.

To strengthen the economy, in 1986 the GOT embarked on a series of reform and austerity measures which to date have met with minimal public opposition. These factors suggest that the GOT may, indeed, be strong enough to survive a transition with minimal political disruption if enough economic growth can be maintained.

U.S. policy is directed at supporting the GOT's economic reform program through new and ongoing AID activities, and at strengthening Tunisia's military forces through joint military cooperation, so it will be better able to counter possible subversive actions by its less moderate neighbors.

C. U.S. Economic Assistance Programs

The U.S. initiated bilateral economic and technical assistance to Tunisia in 1957. Since then, assistance has amounted to over $2 billion, including grant, loan and food aid. Since a temporary phase down period in U.S. assistance culminating in 1984, substantial amounts of U.S. assistance have been provided to Tunisia. This has included new project commitments of $40,350,000 for 1985/1986, $37,580,000 in PL 480 food aid in the last two years, housing guarantees of $61,000,000 during the same period, and drought emergency relief of $4,774,000 in 1986.

## IV. ECONOMIC SITUATION

### A. Structure and Recent Developments

The Tunisian economy is relatively broad-based. Agriculture and manufacturing are of equal importance, each contributing 14 percent to GDP; nevertheless, the service economy makes the largest contribution to GDP (42 percent) and to employment. Manufacturing output has grown at 6.1 percent annually since 1982, while agricultural growth has been restricted by droughts in 1982 and 1986 to an average of 1.7 percent annually. Real GDP grew at 3.1 percent for the period. In 1986 real GDP did not grow, as manufacturing growth of 7 percent was offset by declines in agricultural, petroleum production, and tourism.

This slowdown is due primarily to structural problems within the Tunisian economy. During the 1970s and early 1980s, the economy fueled by favorable petroleum and phosphate prices experienced relatively rapid growth of 6.3 percent in real GDP. Its strong balance of payments position and financial stability were associated generally with these resource exports. Although employment growth has been insufficient to reduce unemployment greatly, workers' remittances have become an important source of foreign exchange. Together with tourism, and despite interest payments on a large and growing foreign debt, these service and transfer flows covered more than a third of the deficit in the merchandise terms of trade.

Rigidities established during this period, including the growth of a large, inefficient parastatal sector, high levels of tariff protection associated with an import-substitution policy, controlled consumer prices, and extensive subsidies to consumer "necessities" and to agricultural inputs, contributed to a level and structure of consumption and production which were incompatible with macroeconomic equilibrium in the face of an external shock. Such a shock occurred after 1982. Oil production and export earnings are declining, as reserves are drawn down and the value of exports has fallen due to oil price declines. Exports of phosphates and their derivatives have reached a plateau.

On top of these long-term trends, a poor harvest in 1986 (the lowest cereal harvest in at least 15 years) required Tunisia to import a large volume of cereals. Livestock and olive production were also adversely affected by drought and disease.

Real value added in tourism, which had expanded rapidly during the 1970s, declined after 1982. The decline is attributable both to certain internal economic policies and to external shocks. The policies include an overvalued currency and a tax system which discriminated against investment in hotel maintenance. External shocks included the recession in Europe, which also adversely affected job availability in Europe, and hence workers' remittances, and international tensions in the area since Fall 1985.

In August 1985 Tunisia and Libya severed relations. Libya was a major source of tourism, workers, remittances and a sizable market for Tunisian exports.

Despite the low grain harvest, the production of fruits, vegetables and diverse agricultural products improved (citrus production rebounded by 28 percent). Fish production, benefitting from significant recent investments in infrastructure, has improved to a level more than 50 percent greater than in 1982. Milk production increased by 8 percent annually over the period.

Manufacturing growth could not make up the reduced contributions of agriculture and petroleum. Two subsectors, food processing and textiles and clothing, account for half of manufacturing production. The former was constrained by a shortage of food for processing, the latter by restraints on exports. Progress was made in construction materials and glass, mechanical and electrical products, and the woodworking and paper category, but these remain small. Over 60 percent of value added in manufacturing stems from public enterprises, many of which are targetted for divestiture in the reforms begun in 1986.

Due to the current policy framework, private consumption expenditure rose 10 percent more rapidly than did GDP throughout the period, while public consumption matched the rise and foreign investment declined. Gross fixed investment remained approximately constant. The implications of this are; (1) a deterioration of the current account as imports have increased to fill the gap, and (2) a worsening of the capital account as increasing consumption has meant a falling savings rate. With the drop in the savings rate exceeding that in the investment ratio, the external resource gap has been widening (to an estimated 8.9 percent of GNP in 1986). As a result, the overall balance of payments shifted from a surplus of $95 million in 1982 to an estimated deficit of $358 million in 1986. Gross official foreign exchange reserves fell from $0.6 billion to nil while external public debt rose from $3.3 billion to $4.7 billion, or 50 percent of GNP. Debt service increased to 24 percent of exports.

Under such circumstances, it would not have been advisable to cover the resource gap through additional commercial borrowing. The Government undertook in 1986 an austerity budget and a structural adjustment progam aimed at alleviating the policy distortions causing this gap and the economic slowdown. Once it was underway, IMF assistance was requested to fill the gap and encourage commercial lenders. An SDR 104 million ($121M) Standby Agreement and an SDR 115 million ($134M) Compensatory Financing Facility were approved in November 1986. Additional structural adjustment assistance has been provided by the World Bank (see Section V-C) with a $150 million agricultural sector adjustment loan in 1986; the residual gap was closed with commercial credit. The 1987 gap by the GOT is predicted to be $439 million.

The Government's program of stabilization and adjustment began with the accelerated depreciation and devaluation of the dinar in 1986. For the year the dinar depreciated by 3 percent against the dollar, which itself depreciated by 16 percent. Beginning in August the government initiated structural reforms to free external trade and prices, liberalized imports of various raw materials, spare parts and semi-finished goods, and aimed at freeing 35 percent of manufactured goods from price control within 6 months. A broad range of fiscal, monetary, income and price policies were introduced in September to control aggregate demand and thereby reduce the 1987 and future funding gaps. These policies are intended to restrain imports (notwithstanding the gradual lifting of import restrictions), promote non-oil exports, and augment receipts from tourism and from workers' remittances. In the short to medium term, however, they will also increase unemployment and poverty. Also, the selective and uneven reduction of tariffs, subsidies, and price controls may cause large transient fluctuations in rates of effective protection which will affect some subsectors adversely.

Tunisia appears to have established the basis for broad economic growth. Its per capita GDP of $1250 in 1986 puts it near the top ranking of lower-middle income countries and most social and economic indicators confirm this position. The breadth of its economy makes the decline in the price of oil less catastrophic for structural adjustment than in other oil exporting countries. Its proximity to Europe, low wages, and physical and human capital base all suggest that Tunisia could become an important supplier of agricultural and manufactured goods to the world market, as well as an important client of that market.

### B. Internal Financial Analysis

Financial analysis is complicated by the system of regulations by which the Central Bank controls the money supply. This includes required sectoral lending ratios, a large set of discount facilities, controlled interest rates, and required prior approval of large loans. Although a money market includes large transactions between the Central Bank and commercial banks, the controls on both deposit and lending rates make this interest rate a poor indicator of monetary policy. Quantitative controls correct the imbalance between demand and supply of funds in the face of low-to-negative interest rates to savers and to preferential borrowers.

Tunisian money supply growth exceeded that of nominal GDP in 1984 and 1985, while the money supply has contracted in 1986 as the economy has contracted (Annex C Table 5). Resources from the CIP will marginally offset the contraction in the money supply, and should not contribute to inflation as the Bank controls credit ceilings overall.

Without the CIP, feedgrain users would obtain grain from the Office des Cereales, the sole importer, who in turn would obtain foreign exchange from the Central Bank for the purchase. The first operation would not affect the money supply, while the second would be deflationary as the reduction in Central Bank dinar liabilities would be offset by an increase in foreign liabilities. The CIP will generate local currency. The Central Bank debit to the Office's account is offset by an equal credit to the CIP dinar account rather than to the foreign exchange account, leaving the operation monetarily neutral. The incremental impact is thus expansionary. The amount of money creation is small (0.3 percent of M1) so Central Bank monetary policy will not cause disruption to credit markets.

Tunisia has accepted as a performance criterion for its IMF Standby Agreement that domestic credit will be restricted to 4.35 billion dinars at end December 1986 (vs. 4.03 billion dinars outstanding in September), with an increase of 366 million dinars ($423M, or 8 percent) during 1987. The CIP contribution of approximately 5 million dinars can be absorbed without major monetary difficulties.

C. Balance of Payments Analysis

Tunisia's balance of payments crisis was triggered by the exhaustion of its foreign exchange reserves in 1986, which imposed a cash-flow constraint on imports and hence on growth and exports. The intention of the CIP is to help to relieve that constraint so that growth can be resumed.

The foreign exchange shortage was caused by Central Bank policy mistakes. The Bank manages the market for the Dinar, as is necessary in a small country to prevent the large fluctuations in value which would occur in a free market whenever large currency purchases or sales occured; its intervention makes trade and investment more orderly. However, confronted with what is either a secular downtrend or a long cyclical decline in commodity prices, the Bank denominated the Dinar too high for cyclical balance. Second, several short-term events made the cycle both longer and more pronounced than expected. Given these shocks, it is not clear whether Dinar depreciation would have prevented the crisis which occured. This analysis considers the trend, the shocks, and the policy rigidities which in combination created the crisis. The

The trend/cyclical decline in foreign exchange earnings had three major elements. The first, the decline in petroleum reserves while domestic consumption was growing, was known to policy makers. It has caused a secular decline in the volume of exports, worsening the current account and inducing a decline in foreign investment in exploration and development of reserves, a major item in the capital account. A new oil field discovered in

1986 will make a modest contribution to production and exports, but will only delay the expected date in the early 1990s when Tunisia becomes a net oil importer.

The second element is the entry of Spain and Portugal into the Common Market. Again, this was anticipated by policy makers. Its effect is to freeze quotas for Tunisian sales of competing goods--principally olive oil and citrus--to the EEC. In reality this did not constrain 1986 exports, because local production was so low, but will handicap export promotion in 1987. The third and final long-term element is the low and declining rate of foreign direct investment. Although such investment appears to have a downward trend, this is policy related.

Several short-term shocks coincided to provoke the crisis. The most evident of these was the decline in the price of oil, which when combined with the decrease in quantity exported, contributed strongly to the deficit on the current account. It also provided further disincentives to oil exploration, reducing foreign investment on the capital account. Phosphate (and phosphate-based product) exports declined in value, principally due to low U.S. agricultural demand for fertilizer which led Moroccan and U.S. producers to increase their export sales to other markets.

Climate has made a frequent contribution to fluctuations in Tunisian agricultural exports. Drought caused an agricultural shortfall in 1986, necessitating increased imports of basic foodstuffs, and leading to decreases in specialty exports. The resulting fall in rural income reduced the national savings rate and thereby contributed to the financing gap. Food processing, which with textiles accounts for half of value added in manufacturing exports, was input-limited and reduced its contribution to exports. In 1985-86, olive exports were at levels approximately half of normal.

Tourism provides 3 percent of GDP and 19 percent of foreign exchange revenues. Low tourism receipts in 1986 were caused by overvaluation of the Dinar and tensions in the Mediterranean region. Tunisia is viewed as price-sensitive, and so was adversely affected by an overvalued exchange rate compared to competing destinations in the Mediterranean. Additionally, Tunisian tax policy provides incentives to invest in new facilities rather than maintain existing ones, with the result that the quality of Tunisian tourism services has been declining. On top of these policy problems, a recession in Europe reduced overall tourist travel and length of stay. Military disturbances in the region served to reduce tourist flows substantially. The break of relations between Tunisia and Libya eliminated tourism from that country, which had been the primary source of tourists to Tunisia.

Workers' remittances have normally been the largest contributor after tourism to the invisibles account. The European recession greatly reduced new net job openings, while the 1985 expulsion of Tunisian workers from Libya eliminated transfers from that source.

The capital account has been artificially boosted in the recent past by the Government policy of establishing development banks, which has led to an inflow of long-term capital. This was not recognized as temporary in nature, but in 1985-86 the banks became fully capitalized and the inflow of paid-in capital ceased. The sudden decline in autonomous capital flows also served to increase the financing gap.

Policy rigidities prevented adjustments which might have moderated the severity of the drawdown of foreign exchange reserves. The principal rigidities were in pricing (goods prices, interest rates and exchange rates) and in non-tariff barriers.

Central Bank mistakes in manipulating the exchange rate have already been noted. This analysis does not criticize a small country for using a "dirty float" and varying its reserves over the business cycle. The Bank, however, has a complex set of rules for allocation of foreign exchange assets which does not reflect their relative economic importance to various local users. For instance, access to foreign exchange for international travel is administratively difficult and limited in availability, even where such travel may generate net improvements to the balance of payments. Potential foreign investors are also deterred by this policy. The resulting distortion in foreign exchange use, rather than saving foreign exchange overall, may have contributed to an overall reduction in earnings.

The GOT interest-rate policy has supported a complex structure of preferential discount rates by sector which distort credit allocation while creating high intermediation costs. The generally low level of interest rates contributes to the low national savings rate and thus to the resource gap.

The complex system of price controls and subsidies leads to distortions in the economy, limiting its ability to respond to shocks, and is also a drain on the state budget. In 1982 the intervention power of the Caisse Generale de Compensation, or Subsidization Fund, was broadly increased. In a period of secular growth in world commodity prices the price stabilization formula was used to keep prices artificially low. As the Government recognizes in its price policy for the VIIth Plan, this created distortions, waste, and fraud (due to the many intemediariés and a complex subsidy system with compensation at several levels of production and distribution). The system presented powerful incentives for non-productive activity. It was also costly to the state budget--nearly 8 percent of total expenditure in 1986

(Tables 2, 3). Finally, low consumer prices, which were declining in real terms served to maintain the level of consumption growth while that of GDP declined. The savings rate therefore declined while the investment ratio did not, widening the external financing gap.

Thus, several coinciding factors contributed to the fall in the domestic savings rate which exceeded the decline in the investment ratio. Such an imbalance could only be offset through foreign borrowing, provided there were willing lenders.

Government price policy is severely circumscribed by past efforts at change. A one-time adjustment of 100 percent for bread prices in 1984 led to widespread rioting. The Government recognized in retrospect that it should have made smaller semiannual adjustments, although this recognition does not take into account the cost imposed by regulation itself.

A final category of policy rigidities includes those having a direct bearing on trade balances. Tunisia uses a system of import and export licensing to control directly the amount of imports, including those for investment purposes. Some constraints are not binding: export licenses are now considered a mere formality used to provide statistical information. They still impose an administrative burden. GOT policy was that the number of permits would be tied to the permitted level of trade for the year. A worsening current account balance would then cause fewer import permits to be issued. In this way the 1984 trade deficit of 10.8 percent of GDP was narrowed to 7.2 percent in 1985. In the process, however, the Government observed the negative effect on growth and on employment. Administrative constraints on imports, plus a high personal income tax for which expatriates are also fully liable, have contributed to a low rate of foreign direct investment. Investment flows remained relatively constant while GDP was growing, but the investment ratio fell more slowly than the savings rate, widening the external financing gap. The realization that this policy tool was counterproductive was a reason for initiating the current structural adjustment program.

### D. Current Account

The following analysis is based on Tunisian data given in the Budget Economique for 1987 and in the VIIth Plan. They basically agree with IMF data, except for slight differences due to exchange rates, but differ on the projections for the future. Table 1(a) presents the current balance in dinars, 1(b) in dollars; since the dollar varied widely during the study period, and most Tunisian trade is with Europe, both figures are given. 1/

The GOT anticipates an improvement in its current account balance in 1987 and 1988 as compared to 1986. This projection is based on very favorable increases in agricultural exports (17 percent in real terms), a 10 percent improvement in volume only in a poor phosphate market, continued decline in both quantity and value of petroleum exports, a continued improvement (from 8 percent to 10 percent volume growth) in textile exports, a turnaround to a ten percent increase (in foreign exchange terms) in tourism. On the import side, after taking account of imports for export manufacture, an improved harvest is anticipated to reduce the increase in food imports, continued low investment is expected to reduce investment demand, and consumption goods for other-than-input into manufacture are expected to decline.

The Mission believes that some of these estimates need to be adjusted. Our judgement is not as pessimistic as the IMF team, and has chosen to use the GOT projections rather than the IMF derived ones. Still, there are several adjustments. While conditions for cereals and forage crops in northern Tunisia have been better-than-average for this year's crop, conditions in central and southern Tunisia have been poor. As a result, the cereals harvest will be appreciably less than the forecasted 1.2 million tons.

The 1987 harvest for food grains is expected to exceed the GOT's preliminary forecast, and availability of forage has already improved dramatically for the livestock sector. On the export side, the GOT expects good citrus and olive harvests, combined with effects of the devaluation, to turn into a 16.6 percent real increase in agricultural exports. This requires marketing a 33 percent increase in citrus, 30MT over the export quota to the EEC. Similarly, olive oil is 25MT over its EEC quota. While such marketing can be done, it is by no means automatic, as expressed above. The Team had no better estimate, but accepts this one with reservations.

1/ At the Paris Donor's Meeting which concluded as the paper was being put in final, the GOT, IBRD, IMF, and several donors presented foreign exchange requirement figures which were not in total accord. We have chosen to present U.S. generated data which generally agrees with IBRD projections. While specific line items may be different it has been concluded that such differences are not significant.

Oil export and import items were priced with high quality crude at $15 per barrel. Recent trends indicate that $18 per barrel is a better estimate for 1987. Information from the Plan concerning value of production and value of exports and imports were used to differentiate the price effect from the volume effect on exports, with the world price adjusted to the price of crude for imports. The adjustment turned a five percent decline in energy exports into a 7.1 percent increase, and +3.1 percent into +16.4 percent on imports.

The 10 percent increase for tourism is probably high, given current and probable continuing uncertainties in the Mediterranean as the tourist-booking season begins. Tourist bed-nights are assumed to be the same as in 1985, with additional dinar revenue coming from the devaluation.

While the 10 percent increase in phosphate exports is a technical item which the designers of the Budget could know, the effect of this on the continued soft world market is unknown. Agriculture elsewhere does not appear to be a dynamic customer this year, so the additional output should force world prices lower. The assumption used is that revenues will be flat.

The use of these occasionally-offsetting assumptions decreases the 1987 current account by D 30.2 million ($35 million) in 1987 and D 38 million in 1988. No longer term projection was attempted due to the low certainty attached to the estimates.

Our assumptions do not differ from those of the GOT in the capital account, nor do we analyze here the particular level to which reserves must be built to avoid impeding trade. As a result, and to the extent the GOT figures are correct concerning needed donor assistance to make up its funding shortfall (Table 7), the 1987 financing needs are overstated by $35 million. Recent donor assistance is given in Table 8, Annex C.

The Standby Agreement with the IMF sets limits on non-concessional borrowing; on this basis and adjusting for the D 30 million overstatement of need, and assuming that the CIP is not included in the targetted D 30 million in grant aid, then the shortfall remaining is 360 million dinars. The CIP would make a modest contribution, ameliorating this shortfall.

### E. Macro-Policy Agenda:

The objectives of the stabilization and structural adjustment plans are to increase GDP growth rate from 1.0 percent in 1986 to 3.6 percent in 1987, reducing the current account deficit from 9.7 percent of GDP (9 percent after IMF assistance) to 7.3 percent and raising gross official reserves from approximately ten days of imports (three weeks after assistance) to 45 days in 1987 and 60 days in 1988. External debt is expected to rise from 55.2 percent of GDP to 63.4 percent in 1987, while the debt service ratio would increase from 25.3 percent of imports to 27.7 percent. While these figures are high for Tunisia, they are not among the highest among countries requesting donor assistance in their structural adjustment programs.

The policy reforms discussed below reflect the policy of the GOT as presented in the Seventh Five-Year Plan 1987-1991 (called the Plan). Elements of this, together with balance-of-payments measures, were negotiated with the IMF (Table 2a). World Bank structural adjustment conditions form a subset (Table 2b). In this section these are analyzed for their contribution to the adjustment, their negotiability, their potential political costs, and other constraints, and for possibilities of donor programmatic intervention, including by USAID.

In proposing to assist the Tunisian Structural Adjustment Program (SAP) and the Plan, AID brings three special strengths to the policy discussion: (1) familiarity with agricultural development and policy issues resulting from 30 years of experience in assisting Tunisia's agricultural sector; (2) an early refocussing of USAID's development strategy in Tunisia to support structural adjustment goals; and (3) its focused agenda which differs from that of European donors.

These strengths should be put in perspective, however. Firstly, the stabilization program is motivated by the decline of foreign exchange reserves, not by debt rescheduling. Anticipated debt service ratios of 26-28 percent during the coming 5 years are high by historical standards in Tunisia but not compared to those of other countries. Tunisian policy makers continue to have a lot of flexibility, so commonality of interest, rather than leverage, is also necessary to effect reforms.

Secondly, the current GOT/IMF/IBRD program will not abolish the underlying administrative regime controlling investment, imports and prices. Constraints could be relaxed completely, and tariffs or subsidies reduced to nil, but the cost in time and effort of satisfying administrative requirements may still be substantial. Particular instances of this are discussed here. In the case of tariffs, policy recommendations concerning tariff rates may be accepted, but non tariff barriers, such as consumption taxes or the continued requirement for providing detailed information on exports could constrain the effectiveness of this policy measure in improving the competitiveness of the economy. While such barriers may be problematic, the Mission has conculded that the consumption tax is in response to the real revenue needs of the government which are under pressure from the lower tariff profiles adopted. The total provided by the export declarations are more bureaucratically generated and their restraints on exports are not evident at this time.

Finally, it is unclear whether the resources AID is bringing to bear, which are less than a twentieth of those of either the IMF or the IBRD, will be able to leverage substantial changes by themselves.

1. <u>Investment Policy</u>: Investment policy currently promotes exports through laws passed in 1985, reduces costs for multiple shifts of labor, eliminates taxation of reinvested profits, reduces taxes on imports by reducing discrimination against them, and eliminates discrimination against maintenance and rehabilitation expenses in the tourism sector. Based on changes made in the first year of implementation, the investment code is currently being revised for immediate introduction. There is no scope for further negotiation as part of the CIP.

The GOT is committed to limiting the number of public enterprises, divesting itself of those which it can privatize, and improving the viability of the remainder. The enabling legislation for this was passed in 1986. A timetable is being calculated. These actions appear likely whether or not there is a CIP and hence there will be no impact of conditionality here. After a proposal is presented to the public, policy dialogue might be appropriate. However, on a policy modification of this scale it is unlikely that the resources proposed for the CIP will offer additional leverage for significant change. AID is constrained by current policy from assisting in reform of public enterprises if that reform is not linked directly to divestiture.

Private enterprises are not a part of the SAP overall, although it is included in IBRD portions of the program. AID/Tunis has instituted PL 480 Section 106 and 108 programs to provide credit at market prices to private enterprises, thereby strengthening them. The two programs will provide $2.25 million in FY 1987 from the FY 1986 program. Additional assets are expected to be generated from the FY 1987 PL-480-I program for these purposes.

2. <u>Price Liberalization</u>: The trend in Tunisia has been toward progressive liberalization of the pricing system. Legislation introduced in 1982 was intended to liberalize price controls considerably, by (1) introducing flexibility into the price control system, and (2) changing the role of government in most subsectors (including those not specifically regulated) to that of review of price changes decided directly by participants. During 1983-84, however, the process reversed direction in response to balance of payments problems arising from liberalization and popular resistance to steep rises in consumer prices. The VIIth Plan intends to adjust prices closer to border prices in order to improve efficiency in manufacturing, to encourage production of agricultural goods, and to recover costs and maintain quality in public services. The general philosophy of the Government is to make the price control system more flexible and efficient, though not to abolish it.

Rioting in 1984 following the doubling of bread prices illustrated the political sensitivity of price liberalization for consumer goods, particularly staples. Donor influence is subordinate to domestic political considerations, and donors have neither the local political skills nor the knowledge needed to implement particular interventions. Policy dialogue in the area of pricing food staples is of the utmost political sensitivity, and must be approached with the utmost prudence, if at all.

Manufacturing: The GOT has scheduled price liberalization for 65 percent of manufactured goods by 1988 and has agreed upon a schedule (Table 3) with the IMF. It is unclear whether this schedule has been accompanied by close study of the effective rates of protection (ERP) by subsector/firm, though a workable input-output table of the Tunisian economy does exist to permit rough estimates. Large transient fluctuations in the ERP for particular firms are possible, presenting cash-flow variations which might help inefficient firms in the short run or, worse, bankrupt firms which are potentially viable. Although these are a candidate for study and potentially for assistance, the process is already underway and AID policy intervention requires further development.

In the agricultural sector, the SAP intends to liberalize consumer prices, input prices, and producer prices so that resource use approximates more closely comparative advantage. It is inadvisable for a foreign donor to apply overt pressure in the field of consumer price subsidies. Moreover, since subsidies at higher levels affect the ERP for lower levels (including food processing), removal of such subsidies requires careful prior analysis.

Input subsidies are a more suitable candidate for intervention. However, elimination of subsidies on technical inputs (e.g. fertilizer) requires careful prior study as to the impact of the subsidy and of its elimination. A schedule for elimination of these subsidies has been agreed between the GOT and the IBRD. The AID Agriculture Policy Implementation Project (APIP) has identified particular studies crucial to implementation of this liberalization step. There is a serious question whether an input subsidy reduces the final product price anyway, and thus whether its abolition has an effect on the consumer. It is possible that management inefficiency, or the induced use of an inefficient technology in response to price incentives derived from average technical coefficients for a subsector, negate the cost advantage proposed. In such a case, removal of subsidies will have substantially less impact on the final consumer than is anticipated by policy makers.

Concerning the socioeconomic and political impact of subsidy removal, there is evidence (Table 4) that removal of the cereal subsidy would be highly regressive, since the poor spend a far greater share of their income on staples than do the middle class or wealthy. Removal of the vegetable oil and sugar subsidies would be slightly regressive or neutral, since the share of these items in consumption is approximately constant across income class. Subsidies to production of milk and meat, however, are actually regressive, as the share of these items in consumption is much greater for the wealthier portions of society, who would be more affected by their elimination. The GOT has agreed with the

IBRD to eliminate all subsidies by 1991. Abolition of the subsidy on animal feeds could be undertaken earlier and does not require the careful study needed before removal of consumer-good subsidies. It will reduce the Government budget. It may not have an effect on the final consumer, but if it does the impact will not be a regressive one. Elimination of the feed grain subsidy is therefore identified as a possible policy intervention.

Cost recovery in irrigation is a second possible intervention within the Plan in support of the SAP. This too requires research before it can be implemented.

3. Public Finance: The Plan calls for merging tax regimes to provide a single tax schedule for persons and for enterprises whatever the source of revenue, and to reduce slightly the progressivity of taxation. The GOT targetted January 1988 for scheduling introduction of a value-added tax, with intermediate steps. This is a very rapid pace and may be subject to delay. The IMF will specifically review this and progress towards a unification of the income and profits tax before September 1987.

As part of efforts to reduce expenditures within the GOT, subsidy reductions would help significantly, if the savings are not used for expenditure elsewhere. The animal feed subsidy cost D 12.6 million in 1986, but will cost less in 1987 due to the first round in partial price liberalization in late 1986 and due to reduced international feed prices.

Cancellation of outstanding (but unused) budgetary authorizations for public investment is ongoing as part of measures to reduce public consumption. Wages are to be indexed to production and productivity rather than to particular price levels. Any reduction of the 1986 and 1987 budget deficits would contribute to stabilization goals.

4. The Financial Sector and Monetary Policy: The Plan calls for condensing the vast number of special interest rates and their associated rediscount rates into three categories: market, penalty, and preferential. Financial intermediaries will be responsible for their own lending policy and bear the lending risk, rather than the Central Bank as at present. The State will withdraw from direct financing of credit programs and instead use subsidies to encourage banks to use their own resources to support Government goals.

The GOT has agreed with the IMF to liberalize interest rates in early 1987. Preferential lending rates and savings deposit rates are exempted from this, but the structure of these interest rates will be related to money market rates. Central Bank intervention to meet credit and monetary targets will be channeled through the money market. From experience elsewhere, this is very difficult to implement; it was planned for January 1987 and therefore is already behind schedule. The Bank may require technical assistance in order to develop unbiased indicators of interest rates and instruments with which to conduct open market operations. Due to its complicated nature and difficulty, it is not an appropriate point of leverage for the CIP.

With the IBRD, the GOT agreed to separate the subsidy from loan elements of its agricultural credit funds and to shift the risk of lending to the banking sector. Achievement of consolidation of various funds and fungability between them requires special study. These could conceivably be performed under APIP.

The IMF has imposed domestic credit ceilings of D 4.7 billion by the end of 1987 (a net increase of D 366 million in new credit during the year) and has limited credit to the Government.

5. International Trade: The VIIth Plan calls for relaxation of certain restrictions on imports to improve the climate for production and investment, and for rationalization and reduction of rates of effective protection to improve efficiency and to benefit from Tunisia's comparative advantage in production. According to the Government's announced policy timetable, almost all imports of primary and intermediate goods will be liberalized by 1991. The timetable progresses from inputs of export-oriented firms (1986 and 1987) to all but "weakly integrated" firms by 1988. Sixty percent of all firms will be affected. No consumer goods imports will be liberalized.

While this proposal is useful overall, three important constraints will remain. Goods which can be used as inputs for manufacturing and for final consumption will continue to be regulated. There is no provision for dismantling of the administrative apparatus itself, though it makes an important contribution to the administrative cost of importing. The retention of controls over imports to "weakly integrated" firms will discriminate against small enterprises, though it is through them that the SAP should have its greatest effect on employment. While these are serious criticisms, the resources of the CIP are not sufficient leverage to promote such a fundamental change in policy. This must be addressed through the IMF and IBRD who have such resources, and through policy dialogue.

Tariff reform has been announced, with the goal of reducing the ERP to a uniform level of 25 percent by 1991. The government is now working on a reduction of a tariff ceiling to 50 percent (down from 300 percent) and uniform reduction of all rates exceeding 25 percent. By January 1988 the GOT has agreed to reduce the floor to 15 percent. Further suasion through the CIP is not appropriate.

Despite the Government's intention of relaxing quantitative restrictions on imports, non-tariff barriers are not a part of the IMF program. Together with the retention of the administrative apparatus which governs imports, it is likely that this will be a obstacle to liberalization and adjustment. The problems are of a bureaucratic and revenue nature, and should work themselves out as the economy regains its health and new tax regimes are installed. AID is limited by the amount of resources available to apply leverage to this fundamental constraint to adjustment.

6. Employment and Training Policy: Reform attempts to make labor more attractive, compared to capital intensive alternatives, by restraining non-wage costs and indexing wage increases to those in production and productivity rather than to prices are being made by the GOT. They call for improving the flexibility, appropriateness, and quality of training programs, and for improving job placement services and the conditions for self-employment. This is not a part of the IMF or the IBRD program, and there are no suitable interventions beyond the existing USAID/Tunisia training program.

7. Rural and Regional Development: Rural and regional policies in the Plan are not included in the SAP and are not discussed here for CIP intervention. USAID/Tunisia examined this program closely and critically in Central Tunisia, and on the basis of its investigation has decided to bring project activities there to an orderly conclusion.

8. Other:

8.1 The dinar was depreciated by 22 percent during 1986, although it has since appreciated against the dollar due to the latter's own depreciation and the fact that the dollar is a relatively unimportant part of the basket of currencies in which Tunisia conducts its trade. The agreement with the IMF calls upon the GOT to maintain the real effective value of the exchange rate, with additional corrections if the balance of payments deteriorate. The draft Budget for 1987 projects a depreciation of 7 percent against the dollar, which is as bold a public statement of government intentions as possible without provoking capital flight. Comparison of the projected real growth versus nominal growth in imports and exports, however, implies that the Government expects its currency to decline 9-12 percent against the currencies of its main trading partners during 1987. This should have a favorable effect on exports, imports and tourism. The Government projects a decline in its trade deficit from D -590 million in 1986 to D -510 million in 1987 (Annex C, Table 1a).

8.2 The IMF has established performance criteria for its Standby Agreement (Table 5), limiting the amount of nonconcessional borrowing of maturities (1-12 years) to SDR 100 million for 1986, with no more than SDR 15 million in maturities of less than 5 years. For 1987, the respective figures are SDR 450 million and SDR 65 million. No arrears will be permitted on external payments. Short-term debt is restricted to its current level of approximately SDR 120 million. The CIP itself is the USG instrument to help the GOT attain those objectives which require considerable grant and concessional lending assistance from donors. The Standby Agreement is deliberately vague concerning the consequences of Tunisian failure to receive the requested "envelope" of concessional assistance to make up the remaining gap. At present, as a result of the February 1987 Informal Donor Meeting in Paris the GOT estimated gap stands at between $150-200 million. A meeting with commercial banks scheduled for April should reduce this gap.

8.3 Neither the IMF nor the World Bank have incorporated the distributional costs of structural adjustment in their assistance to the program, leaving these to the Tunisian government as the necessary price of reform. The Mission could treat these costs in two manners. First, studies under the APIP will inform policy makers of the comparative costs in employment and income effects of policy options to achieve a certain goal; the results of the studies will further give the GOT a source of information independent of the IBRD/IMF as to the political consequences of various steps in the program planned. Second, the Mission proposes a Title I Section 416 program to address directly the groups most severely hurt by the adjustment, those who are rendered unemployed by adjustment and those poor who use a large part of their income for the purchase of food.

## V. AGRICULTURAL SITUATION

### A. Tunisian Crop Production and Imports

Like many other countries, Tunisia has experienced a relative decline in the importance of agriculture to its economy over the past three decades. In the mid-1980s, the sector accounted for 35 percent of employment but only about 14 percent of GDP, and 8 percent of export earnings. These figures represent sharp drops from the 1960 level of 24 percent of GDP, 56 percent of employment, and 60 percent of export earnings. Part of this relative decline can be attributed to the historical economic evolution of middle-income economies away from dependence on agricultural activities. A second factor has been the relatively recent and spectacular rise in the contribution of other sectors, chiefly petroleum, light manufacturing, and tourism to GDP figures. A third factor exporting countries, has diverted attention from the underlying sectoral problems. Food imports have increased by about 3.8 percent per annum over the period 1977 to 1986 and the rate of self-sufficiency for key items has declined over the last decade - i.e. cereals from about 75 to 50 percent. Meat imports more than doubled since 1982. And, if present trends were to continue unchecked, recent projections by the International Food Policy Research Institute (IFPRI) indicate that by the year 2000 Tunisia would have a cereal deficit of almost 1.3 million tons per year, a milk deficit of about 800,000 tons per year in fluid equivalent, and a meat deficit of about 200,000 tons per year.

In addition to a declining overall capacity to feed itself from domestic resources, Tunisia is encountering problems with its agricultural exports. Agricultural exports, consisting principally of olive oil, dates, citrus, and wine, have stagnated and the proportion of sector imports covered by sector exports has fallen from 81 percent in 1976 to 49 percent in 1985. As a result, the sector has accounted for a rising share of the overall trade deficit -- from 5 percent in 1976 to 20 percent in 1985. Based on current trends, without policy correction, the agricultural trade deficit, currently at about 185 million dinars per year, could, under IFPRI assumptions, rise to about 565 million dinars (in constant 1986 terms) by the end of the century. This would present very difficult problems for the economy in the medium-term even if the petroleum, tourism, and manufacturing sectors were to continue to perform at the levels of the late-1970s. Given that all of these sectors are also in present decline or stagnation, the situation would become unsustainable and its continuance would damage possibilities for the success of the GOT's overall economic strategy.

The sector's overall performance has also not matched the projected growth rate of six percent per annum in gross fixed investment for the period 1975 to 1985. During the Sixth Plan period, investment in the sector was 16 percent of the total projected investment in the Plan -- or somewhat greater than the sector's contribution to the GDP. The proportion of total agricultural sector investment by the private sector was only 31 percent -- or significantly below the Plan projection of about 50 percent. Investments by the public sector were concentrated in development of irrigation infrastructure. As a result, most of Tunisia's irrigation potential is now harnessed, but downstream investments and activities to ensure optimal utilization of the development potential are not complete. Moreover, the capital-intensive nature of such investments in the past and the present low utilization of the installed capacity is not supportable in the new macroeconomic situation of fiscal resource constraints and the need to rapidly create additional employment opportunities. The Seventh Plan, recognizing the uncertainties in the resource base, calls for investment to shift towards the private sector from a ratio of 31 percent to 50 percent.

While agricultural sector performance has been relatively poor over the past decade, Tunisia's agricultural potential is far from being fully realized. The levels of inputs used to increase crop yields could be expanded substantially in rainfed as well as irrigated areas. In rainfed areas, especially where annual rainfall exceeds 350 millimeters, major productivity improvements are attainable through widespread introduction of improved farming techniques -- particularly improved tillage practices, increased use of inputs, and more intensive cropping patterns, including pulses and, in some areas and for certain farm sizes, integration of crop and livestock enterprises. In the irrigated areas, there is also considerable scope for yield increases and certainly production growth through greater intensification on existing irrigation perimeters and other sites. Cropping intensity in the areas already fully equipped with irrigation infrastructure through public financing averages only 70 percent while it could be easily in excess of 100 percent. Over the next decade, the impact of such measures -- given proper incentives to producers -- could represent the equivalent of a doubling of the currently irrigated areas -- which even in their present highly inefficient state of operation produce approximately one-third of agricultural GDP from only five percent of Tunisia's arable land surface.

The pace of achievement of this agricultural potential is closely tied to the speed at which essential adjustments can be made in macroeconomic and sectoral policies. As discussed below, past GOT macroeconomic policies have constrained the agricultural sector development. Overvalued exchange rates, subsidized food costs, low prices paid for domestically produced food, and restrictions on imports of agricultural inputs have all hindered progress with the agricultural sector. Reform of such policies, and the improvement of incentives to agricultural producers is now the objective of the GOT's Agricultural Sector Adjustment Program and the USAID Agricultural Sector Strategy Statement discussed below.

## B. Agricultural Constraints

Over the past two years, intensive evaluations have been conducted by agricultural specialists - international and Tunisian - of all aspects of the current agricultural sector situation in Tunisia. Most of the studies were related to the formulation and elaboration of the Agricultural Sector Adjustment Program (ASAP) and/or the Seventh Economic and Social Development Plan for the period 1987 to 1991. USAID/Tunis drew upon these studies in formulating its Agricultural Sector Strategy Statement in late 1986. The latter document was used in identifying the major problems and constraints in the agricultural sector.

### 1. Prices and Incentives

Although an estimated 75 percent of Tunisia's agricultural production is now sold freely under domestic market conditions and may be exported, all markets are heavily influenced by government policies in the control of the exchange rate, trade practices, input/output prices, and subsidies. Policies in these areas have not favored efficient agricultural production and have not promoted an adequate environment for agricultural exports. Past overvaluation of the dinar has hampered fruit and vegetable exports, while artificially cheapening the imports of cereals and livestock products, which themselves are systematically subsidized in their countries of origin. To achieve low consumer prices for food without fiscal burden to the GOT, these commodity imports have been allowed to enter Tunisia free of tariffs. By contrast, industrial production in the country has been protected against the exchange rate overvaluation by high tariffs and quantitative restrictions.

Producer price manipulations have introduced unnecessary market distortions between commodities within the sector as, for example, the pricing of durum wheat (for which Tunisia has a distinct comparative advantage) is set near the level of soft, imported wheat, despite a 30 to 40 percent premium for durum wheat on world markets. Further, by narrowing the margin to food processing industries, low consumer price controls on milk and beef have made imports more attractive than processing local production.

Through subsidies on certain investments, irrigation water, animal feed, fertilizer and other agricultural inputs, the GOT has tried to promote agricultural development. In fact, efficiency of resource allocation within the sector is seriously limited by a whole series of price control and costly subsidization schemes. Best available estimates at present show effective protection levels of about 5 to 25 percent for agriculture, as opposed to 75 percent for industry. The array of inadequate incentives for investments in the agricultural sector showed up in the failure to attract sufficient private investment under the Sixth Plan (31 percent versus Plan projections of 50 percent) and in the need for the government to participate directly in sector investments, subsidize the entire range of private investments, and absorb the efficiency losses from the whole cumbersome system.

Input subsidies have also given rise to further distortions and unequal relative incentives for different crops and production systems. Rainfed crops, like cereals and olives, show a relative underprotection compared to irrigated crops, while "feed concentrate-based" livestock production is overprotected. This compares unfavorably to the rainfed forage system for which the local conditions are best adapted.

Government input subsidy policies also continue to weigh heavily on public resources. The Caisse Generale de Compensation, the principal GOT agency administering the subsidy programs, paid out 16.5 million dinars ($ 22.8 million at official exchange rates) in fertilizer subsidies (manufacturing and users) and 20.1 million dinars ($ 27.8 million) in animal feed subsidies alone in 1985. Subsidies on irrigation water, affecting less than 5 percent of the arable land, are estimated at 23.0 million dinars ($ 32.0 million) annually, consisting of about 2/3 capital and 1/3 operating and maintenance subsidies. Subsidies to consumers for food products in 1986 are estimated to total be about 250 million dinars ($ 345 million).

To reduce the high fiscal cost and improve the effectiveness of its pricing policies, the GOT is taking some important adjustment steps, including raising producer prices for cereals and milk faster than the rate of inflation, instituting a price premium for durum wheat compared to bread wheat, introducing a consumer price increase for fresh milk, reducing input subsidies, increasing irrigation water charges, and increasing consumer prices for beef by about 20 percent. Most recently, the government has developed a ten year program for the full recovery of operating and maintenance costs of irrigation water.

While these actions are encouraging and indicative of the GOT's will to implement reforms, much more remains to be done. Specific areas for further action in the realm of price and incentives adjustment are:

a. Development and implementation of an effective producer price strategy which gives incentives to farmers for production of crops for which Tunisia has a comparative advantage and which leads to an improvement in the sector's trade balance (taking into account world market price trends, movements in exchange rates, and the trade policies of major competiting exporters). The strategy will involve consumer price liberalization for certain commodities and improvement in the system of administrative pricing for essential commodities.

Immediate steps should be taken to correct known pricing imbalances, based on the best available data, and to develop the institutional arrangements, working tools, and methodologies for follow-up actions during the Seventh Plan. Market liberalization should be accompanied by measures to protect against temporary export price reduction measures in other exporting countries. A range of tariffs from 15 to 25 percent will be applied to imports of all commodities, as well as included in the determination of administered prices in the case of cereals.

b. Implementation of a program for the phase-out of input subsidies on irrigation water (over the next 10 years), fertilizer (5 years), animal feed, certified seed, pesticides and herbicides (3-4 years). These measures will be aimed at shifting protectionist patterns within the sector in favor of efficient rainfed production systems. The timing of specific subsidy reductions will be coordinated with adjustments in output prices and other macroeconomic variables - i.e. exchange rates and industrial tariffs - so as to gradually reduce the differences in relative incentives within agriculture and between the sector and other sectors, (particularly industry).

c. Development and implementation of an effective strategy for the promotion of sector exports during the Seventh Plan period, in line with the emphasis in the macroeconomic adjustment program on the development of exports in general. This strategy would include commodity and market-specific measures to diversify exports of traditional and new crops, given the limitations of growth in the EEC market. This would also involve the systematic evaluation of incentives, removal of administrative bottlenecks, refocus of research and development efforts, and a review of the role of parastatals in market development.

2. Public Investment and Expenditures

During the 1970s, the allocation of public, as well as private, resources in agriculture was declining as other sectors, particularly petroleum and tourism, were growing more rapidly. The expenditure pattern within the sector was highly capital intensive since the focus was on bringing new lands under cultivation through irrigation development. The incremental capital output ratio in the sector was much higher than in manufacturing. Since resources were plentiful, public expenditures carried the burden of most new investments. In fact, the share of private investment in the sector declined from 38 percent in 1980 to 31 percent in 1985, compared to the Sixth Plan projection of 50 percent. The proportion of investment devoted to irrigation infrastructure and operations peaked in 1977-1981 at 44 percent of total public expenditures in the sector. Farm machinery expenditures similarly peaked at 18 percent of the total during this same period. Meanwhile, the allocations of available resources made to agricultural research, extension services, and conservation of natural resources were reduced.

Recent adverse developments in external markets indicate that the resource base for public expenditures under the Seventh Plan will be seriously constrained. The GOT's sector adjustment program involves implementation of an investment strategy which recognizes the overall constraints on budgetary resources and takes into account the increasing importance of agricultural development in the "post-petroleum era" that Tunisia will enter in the early 1990's. Within a sectoral planning figure of 22 percent of total Seventh Plan investments, the sector expenditure strategy would focus on increased efficiency in the use of resources by maximizing returns on past investments; promotion of cereals, meat, milk, fish and forestry production for export and import substitution; greater labor intensity in expenditures - i.e. through a more appropriate policy of minimum wages, interest rates, and other investment incentives; and, privatization of commercially viable sector support activities.

Sub-sector expenditure priorities consistent with this strategy are now being finalized in the approval process for the issuance of the Seventh Plan. For the key sub-sectors, the following types of investment strategies will be adopted:

a. In irrigation, the objectives will be to finish investments in ongoing projects after completion of a reevaluation of their viability, to focus on rehabilitation and maintenance in the existing projects, and to improve water use management and operational efficiencies at both the regional and field levels.

b. In livestock, emphasis will be placed on promoting more private sector investment in services and production, improving support services in cross-breeding to improve genetic quality, strengthening livestock research and extension services, and improving cost recovery in animal health and breeding services.

c. In agricultural research and extension, the emphasis will be in training more subject matter specialists, improving mobility and skills of a unified extension service, focusing investments on a few key regional research centers with developed and priority research programs for export crops, cereals and rainfed forages, and in constructing new extension centers with associated housing mainly in rainfed cropping areas.

d. In forestry and fruit tree development, the objectives will be on accelerating investments in nursery development, controlling overgrazing in regeneration areas to bring existing forests back into production, encouraging private sector involvement to replace state support, and on reorienting farmers towards reforestation and creation of permanent pastures.

e. In grain storage, efforts will be on rehabilitation of existing facilities to increase capacity and improve the domestic collection network, and on modernization of handling to improve cost effectiveness.

f. In fisheries, efforts will be made to improve utilization of installed capacity in ports, boats, infrastructure, and cold storage, to encourage private investment by foreign interests in joint ventures to developing new export markets, and to promote investments for developing the underutilized resources for domestic markets.

All agricultural projects in the Seventh Plan should conform to the above strategies and will need to meet strict project selection criteria - i.e. economic rates of returns over 10 percent, based on evaluation with economic prices for unskilled labor, production inputs, and outputs. To maintain investment efficiency in the case of resource constraints (by avoiding against across-the-board cutbacks), the GOT is also implementing the concept of a "core program", provisionally fixed at 65 percent of the total Seventh Plan initial allocation to each sector. Projects included in the "core program" would receive priority in the event of such cutbacks.

### 3. Farmer Support Services

Despite the sizeable expenditures made in the past for government services in support of agriculture, only a small minority of farmers have reliable access to effective extension services backed up by relevant research efforts, farm machinery services, input and output markets, and institutional credit. Agricultural extension and research facilities have been constructed in most parts of the country but, given the multiplicity of special area and commodity-specific services in extension, farmers often receive different and even conflicting advice from different extension agents. Extension agents spend a large proportion of their time on non-extension work (such as input distribution, credit, and collecting statistics) and they generally have no subject-matter specialists on whom to call for technical guidance and advice in their presentations to farmers. There has been a lack of a coordinated approach in planning and executing priority agricultural research, and research institutes have suffered from high turnover of trained and experienced personnel due to unfavorable remuneration schedules compared with teaching. Linkages between research activities, extension services, and resolution of actual on-farm problems are judged to be very weak by most observers.

There have been serious problems with a whole gamut of other government-sponsored agricultural services. Farm machinery services have suffered from the recent monopoly of the locally-manufactured Mateur tractor which has led to poor after-sales service. The presence of the public sector tractor hire agency, SONAM, has tended to discourage private sector initiative and investment. Farmers, particularly in less accessible rainfed cropping areas, do not always have assured access to fertilizers and seeds because of the predominance of the government parastatal, Office des Cereales and because of poor distribution programs. However, increased margins for private traders during recent years have resulted in substantially expanding private participation in input distribution.

Even though the total volume of agricultural credit has grown by over 50 percent since 1980 and not all farmers need or should be granted credit, only 10 to 20 percent of Tunisian farmers receive short-term institutional credit, and 85 percent of the productive medium-term investment credit is dependent on the resources of the government. Although the overall loan recovery rate is 70 percent, the recovery rate under the preferential agricultural loan fund for the 95 percent of all farmers classified as "small- or medium-farmers", is less than 50 percent. Large annual replenishments to credit funds are thus necessary from the government's budget. Similarly, livestock services, which are provided free of cost by government departments, have now been widely accepted and should be prime candidates for better cost recovery and progressive transfer to the private sector or cooperatives.

Some important actions have been taken by the GOT to improve the efficiency of certain sector support services. Cognizant of the need to reform agricultural research and extension services and programs related to farm mechanization, the government commissioned master plan studies in these areas with funding from the IBRD. These master plans have been completed and will form the basis for key policy decisions in the near-term. Some features of the IBRD's "Training and Visit" extension system are also being tried on a pilot basis. Fertilizer resale margins for the private sector have been increased in the past four years and other actions have been taken as first steps for increasing competition in the agricultural input distribution system. Interest rates for agricultural loans, including those for the preferential agricultural loan funds (FOSDA and FOSEP) have been raised to levels which are now positive, at about 1 percent over the rate of inflation. These increases, however, still do not provide sufficient incentives to private financial institutions. Financial institutions have made little effort to actively seek out farmers as lending candidates, expand agricultural lending for other clients, or raise additional deposits and apply these to agricultural lending.

The government, under the sector adjustment program, intends to take the following actions in the area of agricultural support services:

a. For agricultural research, a formal review of the recently completed master plan will lead to the adoption of a five-year program to strengthen the research network, including organizational and network restructuring, definition of a priority research program, complementary actions to improve the status of researcher staff, and determination of longer term national research priorities.

b. For agricultural extension, a formal review of the parallel master plan for agricultural extension will be conducted leading to adoption of a restructured program establishing a "Training and Visit" unified extension system nationwide during the Seventh Plan period.

c. For farm mechanization, the government would ensure that adequate incentives are created for effective after-sales services for both domestically-manufactured and imported tractors. These incentives would include the lifting of the current ban on imported tractors and replacing it with temporary and reasonable tariffs. In addition, the government would implement a program for progressive transfer of farm mechanization services to the private sector, starting with a selective withdrawal of SONAM from areas where the private/cooperative sector could take over the rental of non-specialized machinery.

d. In input marketing, the GOT will implement a program to encourage greater private sector participation by ensuring that public sector pricing does not undercut the private retailers and by progressively eliminating controls on fertilizer resale margins. A phased withdrawal of the public sector from those commercially viable areas for private input distribution will be affected. The phasing out of seed subsidies will be accompanied by the implementation of a program to develop alternative systems of quality seed distribution to replace the present seed exchange program.

e. In agricultural credit, an action plan will be implemented to improve margins for credit agencies permitting them to cover all costs of agricultural lending. This will be accompanied by a redefinition of the "small- and medium-scale" farmers to transfer more farmers' accounts from the state-financed FOSDA to the coverage of normal agricultural lending through banking institutions, thereby reducing the dependence of the agricultural credit system on the GOT budget. Parallel actions will be taken to make operational the Guarantee Fund operational and to strengthen the refinance system for gradual involvement of other credit agencies besides the National Bank of Tunisia (BNT), as interest rate margins improve.

4. Resource Management

Efficient land use in Tunisia is constrained on private farms by fragmentation, lack of clear titles and security of tenure, and an inefficient management of collective and public lands. On average, a typical Tunisian farm consists of four separate fields, with 25 percent having more than six fields. Land titles, particularly in the fertile North, are seldom available and the process of providing titles is slow. Land consolidation measures have been launched in irrigated areas where about 45,000 hectares have been consolidated since the early 1970s, based on minimum holding size established by law, but there is no consolidation program for rainfed areas. Improvements are also needed in the security of tenure arrangements, particularly in the North where 30 percent of the land is leased. Present land lease legislation provides for only short-term leases of one to three years, and needs strengthening in relation to the length of the lease and compensation for improvements made by tenants. In the case of collective lands, about 560,000 hectares have been transferred to 75,000 private farmers since independence. More recently, the GOT has been offering some collective land to private companies and making efforts to improve the management of other areas through the preparation of integrated development plans supported by credit facilities.

The government's agricultural sector adjustment program envisages the continuation of the transfer of collective lands to private parties and other efforts to improve their management and the establishment of a legislative framework which encourages land consolidation in rainfed areas. This would involve the extension of the current land consolidation legislation in irrigated areas to rainfed areas after suitable modifications, as well as reorganization of the role of the government agencies involved in land regulation to achieve this task without major personnel expansion. Land titling or temporary issuance of certificates of possession, is being accelerated. Necessary actions such as aerial photography, improved mapping, etc. to speed up the process will also be taken. Measures to increase security of tenure including providing for longer leases - i.e. 6 to 9 years - would be established by new legislation and implemented.

The nation's forestry resource remains underdeveloped. Its potential is unexploited and its surface area is probably in regression primarily as a result of overgrazing and illegal cutting of trees for fuel. A new forest inventory will be required to identify forest losses accurately, but they could easily amount to one or two percent (9,000 to 18,000 hectares)per year. The sector adjustment program aims to increase resources available for forest development and protection by bringing expenditures more closely into line with production potential and to safeguard the forest while increasing production by designating selection regeneration areas for more effective management. A modest investment in equipment, training and organization could practically double present wood production in the medium-term, and the government is preparing a major forestry development project with the assistance of FAO.

Fishery resources are nearly fully exploited as far as high value demersal species are concerned. The present exploitation of small pelagic bluefish, however, is only at about 30 percent of its potential. It is these cheaper species that are in demand for the domestic market and yet marketing of fish in the interior of Tunisia was been constrained by rigid controls on private dealer margins. For lack of a well-established market, some high value resources are also underexploited. The sector adjustment program aims to further stimulate fish exports as part of its export promotion program while deregulating domestic fish marketing margins to encourage fuller exploitation of the existing underutilized resources and fishing boat capacity.

### 5. Agricultural Policy Formulation and Monitoring

A primary reason for the relative neglect of the sector's unexploited potential has been the inadequacy of adjustments in sector policies to meet the changing economic environment Tunisia is facing in the 1980s. There has been a distinct inability to collect and process appropriate data, to perform economic analyses, to formulate policy reforms, and to implement new reform measures. The primary focus of the Ministry of Agriculture's Department of Planning, Statistics and Economic Analyses (DPSAE) has been on project analysis, simple farm surveys to establish production costs, and routine budgetary functions. To meet the challenge of the adjustment program, DPSAE needs considerable strengthening. The sector adjustment program aims to strengthen the sector performance monitoring and policy analysis capacity of the DPSAE. This capacity will be built-up in order to launch a detailed price policy review in the agricultural sector. The review will focus on better assessing the main economic impacts of alternative sector policies, as well as the fiscal costs of the price formulation processes in agro-industry. In addition, a computer-based system for monitoring sector expenditures, and capacity to undertake special policy evaluation studies will be established. Such policy analysis work will directly facilitate the tasks of monitoring the implementation of the sector adjustment program and taking suitable and timely corrective actions as needed.

The sector adjustment program for the medium-term is both far-reaching and energetic. It is a "live" program which will need constant fine-tuning and considerable expertise to implement in a timely and economically sound manner. The activities undertaken will be subject to refinement, amplification, and correction based on close monitoring and evaluations of their impacts and based on much additional analytical work to be completed over the Seventh Plan period. To be successful, the sector program will have to have the active support of both the GOT and the donor community during its implementation.

## C. Policy Framework in the Agriculture Sector

The GOT's economic readjustment program, as it pertains to the agricultural sector, entails progressively halting, and in some cases reversing, policies and programs that have been in operation for the past several decades. The private sector, in both agriculture, services, and industry, will need to adjust rapidly to the forthcoming changes. After long being accustomed to government tutelage and protection, private enterprises will have to make their own decisions on the basis of real market criteria.

Three basic thrusts are expected of the sectoral readjustment program: increasing the role of market forces in determining agricultural development, progressive disengagement of government from direct participation in the sector, and strengthening the participation of private concerns in marketing of farm products and inputs.

To the extent that previous economic policies favored urban areas and discouraged agricultural production, it resulted in reduced employment opportunities in the countryside and encouraged rapid migration to the urban centers, which further contributed to the growth of food demand. The changes envisaged as part of the ASAP and the overall economic readjustment will arrest and possibly reverse the deteriorating trend in the terms of trade of the agricultural sector. The farm sector as a whole is anticipated to be a significant net beneficiary of the economic readjustment effort.

### 1. GOT/IBRD Structural Adjustment Program

Both the World Bank and the International Monetary Fund are lending much needed support to the Government of Tunisia to carry out the readjustment program. The World Bank has loaned Tunisia $150 million to be used mainly for financing the imports of both agricultural products and inputs during the transition period. Unfortunately, although the Sectoral Adjustment Program specifies the overall goals and datelines, it does not provide the needed technical and commodity support to identify, analyze, and formulate alternative paths to reach them. The USAID Agricultural Policy Implementation Project (APIP) proposes to fill this precise requirement.

The first phase of the ASAL (Agricultural Sector Adjustment Loan) started in September 1986, and the first policy changes have already been implemented. Gradual adjustments are scheduled over the next four years. (See Annex E.) As a condition for the disbursement of the second tranche of the ASAL loan, the Government is expected to announce a series of major decisions by May, 1987. Those decisions concern the price of cereals to farmers, the price of farm inputs including fertilizers, herbicides, seeds, efforts to recover the costs incurred by the GOT in providing irrigation, legislation reform aimed at preventing the excessive fragmentation of agricultural land, increase in the rates of interest for agricultural credit to reflect real costs, efforts to encourage private sector distribution of farm inputs, and many others.

The Tunisian Government recognizes that internally it does not have sufficient human and material resources and capabilities to provide the necessary analyses to make decisions on all the above issues. There are both private and public institutions carrying out financial and economic analyses and their skilled manpower resources could be used to complement public sector personnel. APIP will provide the Government with help in tapping those resources for policy analysis and formulation.

APIP will also complement the existing Tunisian resources with long term and short-term expatriate technical assitance, to strenghten the capability of the policy-making echelons of the Ministries of Agriculture, Commerce and Industry, and Plan nd Finance in their efforts to identify, analyze, and promulgate policy alternatives which reorient the agricultural sector towards an increased reliance on private initiative, private markets, and the competitive pricing system.

The project will support the ASAP program by contributing to the identification, analysis, and formulation of policy innovations by greatly improving the information base for policy analyses and debates and by developing analytical frameworks reflecting conditions in markets and production on which expanded private sector participation can be based. A central focus of the APIP and the ASAP programs is to create an environment in which the competitive pricing systems in the agricultural sector gives clear signals for the efficient allocation of production and consumption resources. Policy analyses and formulation must be well grounded in an understanding of private sector decision making and on information of how private persons respond to economic incentives and resource constraints.

### 2. USAID Agricultural Sector Strategy and Policy Agenda

USAID/Tunis strongly supports the general directions and policy reform actions anticipated under the agricultural sector adjustment program. The program meshes very well with the GOT's overall macroeconomic strategy for the economy and is well-formulated to redress many of the problems that have been plaguing the sector and hampering realization of agricultural potential for many years. Moreover, the adjustment program has been fully accepted and adopted by the GOT, and constitutes the basis for the GOT Seventh Economic Development Plan (1987-1991) and annual budgetary allocations. It helps shape any USAID initiatives in the agricultural sector through the end of this decade.

Tunisia is undertaking a radical break with policies of the past which had stifled agricultural development. It is taking steps at both the macro and sectoral levels which coincide well with the AID overall development strategy. The next four years will be critical in the adjustment process; the process will create dislocations in the economy that may bring social unrest if not addressed properly. The IMF, the World Bank, AID, and other donors are contributing to the effort. APIP and the CIP will contribute by assisting the GOT in determining the most appropriate policies of adjustment, and how best to utilise the limited level of public sector resources for minimizing the social cost, and for accelerating the response of the agricultural sector to the new opportunities and challenges.

USAID/Tunis considers the APIP project the keystone of its agricultural development strategy for the next four years. The emphasis given by the Government of Tunisia in development of the agricultural sector as part of its readjustment program coincides with USAID/Tunis' priority to this sector in its overall agricultural sector strategies. (See Annex D.)

The GOAL of the Agriculture Policy Implementation Project (APIP) is to increase the efficiency of resource allocations in the agricultural sector through greater reliance on open market economic competition as the primary driving force in the economy.

The PURPOSE of the project is to establish a sustainable system which selects, analyzes and formulates actionable policy initiatives in support of the GOT's Agricultural Structural Adjustment Program (ASAP).

In support of the Project's Purpose, APIP is designed to produce two major OUTPUTS during its four year life. First, and most important, as a result of the execution of a number of discrete economic analyses, government decision-makers will have at hand the required economic data with which to implement needed policy reforms under the Agricultural Sector Adjustment Program.

Secondly, technical capabilities of several governmental agencies will be reinforced to produce a trained cadre which can identify policy constraints, conduct economic analyses of these constraints, formulate appropriate policy recommendations, and monitor the impacts of economic changes in the agricultural sector.

These outputs will be achieved by the implementation of two broad component activities:

COMPONENT 1: ECONOMIC ANALYSIS AND POLICY FORMULATION

While some APIP resources will be allocated for strengthening the existing functions of certain GOT agencies, the majority of project resources will be directed at the execution of critical economic analyses required by decision-makers in carrying out ASAP policy reforms. Analyses will be conducted in three priority agricultural policy areas: (a) increased efficiency of resource allocations, (b) freer market pricing adjustments and (c) increased privatization in the agricultural sector.

A tentative list of economic analyses to be conducted under the component includes:

Increased Efficiency of Resource Allocation

- Assessment of the effect of changes in agriculture input subsidy levels and improvement of demand forecasting for the decontrol of input marketing margins;

- Calculation of domestic resource costs and coefficients of protection for planning purposes;

- Analyses of fertilizer distribution and pricing to lower costs and privatize operations;

- Development of economic models of the rainfed and of the irrigated farm sectors to measure the impact of policy changes and farming practices;

Freer Market Pricing Adjustments

- Projection of consumer demand for agricultural commodities to measure deregulation response;

- Development of simulation models of agricultural supply response to measure the impact of input and output price changes;

- Competitiveness of Tunisian agricultural commodities measuring production costs and comparative advantage and plan adjustments in crop mix;

Increased Privatization in the Agricultural Sector

- Agro-industrial enterprise case studies done to compare relative efficiencies of parastatal and private enterprises for the possible privatization of parastatal enterprises;

- Development of export marketing strategies for certain commodities to enhance export earnings, and

- Investigation of alternative agriculture credit and financing through private banking to expand access.

COMPONENT 2: REINFORCEMENT OF THE GOT CAPACITY TO ADEQUATELY ANALYZE, MONITOR AND EVALUATE THE SPECIFIC POLICY INITIATIVES UNDER THE STRUCTURAL ADJUSTMENT PROGRAM

Specific activities under this component include:

- Conducting a management audit of the Ministry of Agriculture's Directorate of Planning, Statistics and Economic Analyses (D/PSAE):

- Integrating the market survey systems of the Ministries of Agriculture (MOA) and Commerce/Industry (MOCI);

- Instituting a computerized monitoring and evaluation system within the D/PSAE

- On-the-job training and experience in conducting economic analyses of the agricultural sector

Operationally APIP is broad-based and will involve the interaction of a number of organizations. The Coordinating Committee for the GOT/IBRD Agricultural Structural Adjustment Program will serve as the overall policy coordinator for the Project. This is the key institutional component that will determine that critical linkage between APIP-generated data/policy recommendations-and-actual implementaion of related structural adjustment policies. This Committee is under the chairmanship of the Ministry of Plan and Finance (MOPF) with permanent representation from the Ministry of Agriculture (MOA), Ministry of Commerce and Industry (MOCI) and the Central Bank. It's primary responsibility will be to provide policy guidance to the Project and to review and approve the annual workplan of economic analyses.

The Directorate for Planning, Statistics, and Economic Analysis (D/PSAE) through its Director will serve as overall technical manager and implementor of the Project. Under the guidance of the Coordinating Committee, D/PSAE will be responsible for developing the annual workplan, directing the conduct of economic analyses, and ensuring that these analyses conform to the needs of decision-makers implementing the Structural Adjustment Program. It will be assisted in this role by the varying participation of Planning Units of MOCI and MOPF, the Ministry of Crop Production and Agro-Industry (MCPAI) and other appropriate organizations.

Project inputs are required in the form of technical assistance support, training and commodities. Technical assistance support will consist of one long-term expatriate advisor during the four year life of project, short-term expatriate assistance totaling an estimated 166 person months, local hire short-term assistance totaling 161 person months, and long-term local contracts totaling 24 person years. Training in addition to on-the-job training done locally, will consist of an estimated 17 1/2 person months of specialized overseas training. Commodity support will include micro-computers and peripherals, vehicles, office equipment, office furniture, and supplies.

There are several other aspects of the Government's agricultural readjustment program that make APIP project crucial to USAID/Tunis. APIP will require a constant dialogue between various branches of the Government of Tunisia, USAID, The World Bank, other donors, and private sector entities in policy formulation at the highest national level. The general orientation of the policy changes in the GOT's agricultural readjustment program coincide with AID's agenda to promote competitive market mechanisms over an administrative pricing system, encouragement for private sector initiatives in taking a more active role in agricultural markets, and reduction of GOT direct involvement in commercial activities that the private sector can perform equally well or better.

## VI. PROPOSED U.S. ASSISTANCE

### A. Problem Identification

Trade imbalances led by decreases in the value and quantity of exports, growing unemployment caused by population growth and reduced expansion of job opportunities (both locally and abroad), and last year's drought have all contributed to the economic problems Tunisia now faces. Tunisia will not generate sufficient foreign exchange to import the foodstuffs and productive goods that are required to feed the populace and to support the needs of the economy.

The balance of payments shortfalls for 1986 and 1987, are expected to be TD 590 million and 540 million respectively (see Annex C, Table 1c). These will be financed by borrowings, grants, direct investment, services and transfers (see Annex C, Table 1e). Imports are projected to consist of energy related products (8 percent), raw materials and semi-finished products (37 percent), equipment (20 percent), food (15 percent), and consumer goods (20 percent) - Annex C, Table 13. In the past few years, the U.S. has exported to Tunisia roughly 15 percent of required foodstuffs and about 5 percent of total imports (Annex C, Table 14).

### B. Assistance Description

Through a Commodity Import Program (CIP), the U.S. can assist Tunisia ease its balance of payments problems and can help provide needed goods. Through a policy dialogue with the GOT, USAID can encourage an appropriate policy framework which will help promote local production and economic self-sufficiency. Through the use of local currency generated by the Commodity Import Program, selected developmental activities including those indentified under APIP, can be supported financially, strengthening them and contributing to improvements in the national economy.

#### 1. Commodities

Under the CIP, the U.S. can potentially provide an enormous breadth of goods produced in the U.S.A. to recipients of aid. Eligible items and commodity-related services are those as defined in AID Regulation 1 Commodity Eligibility Listing (HB 15 Appendix C). In Tunisia, the type of commodity is determined by need, cost effectiveness, managerial capability/organizational framework, past experience, and local marketability.

In discussions with concerned parties, a list of póssible commodities was made. This list is not definitive, but does illustrate categories of commodities with high potential for later CIPs. For reasons that will be described below, the decision has been made to supply soymeal for the FY 1987 CIP, but the listing may be useful, showing U.S. goods that could be considered at some later point.

Grains: Wheat, flour, barley, corn, soya, and seeds could be supplied under the CIP to Tunisia.

Fertilizer: Tunisia imports ammonia, nitrates, and potassium sulphate for the manufacture of fertilizer. These "raw materials" could be supplied through the CIP.

Raw Materials for Industry: Various undefined chemicals (both organic and inorganic), metals, paper products, etc... could be supplied.

Pharmaceuticals: Various drugs and other medical supplies could be provided under the CIP.

Vehicles: Autos, cycles, trucks, and tractors (with spares) could be included in a CIP.

Industrial Machinery: Co-generators (heat exchange equipment for phosphate plants), electrical machinery, measuring devices and medical equipment could be provided.

Computers: Hardware and software, data line tie - ins, mainframe and minicomputers, spares and commodity-related technical assistance could be supplied.

Renewable Energy: Equipment and technology, including solar-energy equipment, windmills, ram jet pumps, efficient kilns, etc... and related technical assistance could be provided.

Telecommunications Equipment: Telephone, telex and related equipment could be supplied, along with related technical assistance.

Aircraft and Spares: U.S. manufactured aircraft and spares could be supplied under the CIP.

Railways Equipment: Locomotives, running stock, switching gear, and related spares and technical assistance could be included under the program.

All of these commodities, in varying quantities, have been exported to Tunisia from the U.S.A. in the past through commercial sales. Past sales have averaged roughly $160 million per annum (see Annex C, Table 14) and have constituted about 5 percent of total imports. All commodities have various positive and negative features to be considered under the CIP. For this year's program, however, the supply of soyameal (in the form of pellets) is considered most appropriate.

In terms of need, it is projected that Tunisia will have a shortfall in grain requirements for 1987 of 1,346,000 tons. Import requirements are estimated at 325,000 tons of hard wheat, 590,000 tons of soft wheat, 59,000 tons of barley, 270,000 tons of corn, and 103,000 tons of soya (shown in metric tons, see Annex C, Table 15). At an estimated $180 ton for U.S. soya pellets (compressed soya meal), and exclusive of shipping, U.S. soya is competitively priced and readily available for export. The Tunisian requirements for soya pellets, having a 44 percent minimum protein content, 7 percent maximum fibre content and
12.5 percent maximum water content (Group B). Total Tunisian soya requirements for 1987 are presently projected to be for 103,000 tons and the GOT may possibly purchase the balance required from the U.S. if the CIP transaction proceeds according to plan. For analysis of Tunisia's animal feed subsector, see Annex A.

Soya is a relatively high value crop and the CIP, at a level of $8.258 million, will supply about 39 percent of Tunisia's 1987 projected needs. Soya, in the form of pellets, can be shipped in two lots and supplied in a timely manner. The U.S. has a surplus of soya and can effectively meet Tunisia's requirements. Previously, Tunisia has purchased soya pellets from Brazil and Argentina, so this transaction will assist in developing new markets for U.S. agricultural commodities.

USAID/Tunisia has considerable experience with the importation of feed grains into Tunisia, through the FY 1986 CIP (corn for animal feed) and the on-going PL 480 programs. Systems have been established for the procurement, shipping, distribution and sale of foodstuffs. These will be described in Sections VII C and H. USAID/Tunisia does not yet have experience or the establishment of systems for handling other types of commodities in Tunisia, nor is there sufficient staff currently at post (see Staffing Requirements, Section VII D) to carry out such a program at this time.

Soya is easily marketed in Tunisia. This has been handled through the Office des Céréales, which sells soya to the various feed mills. The mills then process the soya and distribute the blended animal feeds through their own distribution networks. The onward sales of the soya is the responsibility of the Office de Céréales, as is the payment, on behalf of the GOT, for local currency equivalents into the CIP Special Account.

For these basic reasons, the FY 1987 CIP will be used to supply Tunisia with soya. The Mission has experience with animal feed procurement and distribution and has the staff required to carry out such a program. The Tunisians have a definite need for the soya and the ability to rapidly market it throughout the country. Soya is cost effective and represents an appropriate use of CIP funds. Given that the GOT proposes to procure it's own shipping for 50% of the product, the CIP will enable the Tunisians to procure approximately 40,000 tons of soya. This equals 39 percent of projected annual requirements.

Although soya is the most suitable commodity for the FY 1987 CIP, in the future this may not be the case. Soya is a consumable good, not productive in nature. It is not export generating, nor does it serve to help develop import substitution. There are subsidies currently involved in the sale of animal feed and soya handling does involve the GOT, rather than solely the private sector. The considerations of productivity, import substitution/export orientation, and private sector management may be key in future programs and be more crucial in determining commodities for the CIP.

2. Conditionality

The AID program supports the objectives of the GOT Structural Adjustment Program and has delineated the specific USAID policy reform agenda in the Agricultural Strategy Statement. The main areas of focus are agricultural import substitution and the elimination of subsidies on fertilizer, seeds and agricultural chemicals, agricultural exports promotion, liberalized commercial agricultural credit, and cost recovery in the irrigation sub-sector. The conditionality of the FY 1987 CIP is directed toward the liberalization of policies concerning agriculture inputs.

a. Conditions Precedent: The GOT will establish a new and separate Special Account for the FY 1987 CIP. This account will have deposits of local currency equivalent to the U.S. cost of the commodity plus non-U.S. flag vessel shipping costs for one -half the volume of the commodity within six months of delivery in country of such commodities. The Special Account will be held by the Tunisian Treasury, which will be required to provide quarterly statements, showing all transactions (deposits, disbursements) and balances.

b. Covenants: During the life of the program, the GOT will covenant to perform the following:

(i) The GOT, through the Ministry of Crop Production and Agro-Business and Office des Céréales, will devise and implement a plan for the reduction of subsidies on animal feeds in 1988 and maintain unsubsidized prices thereafter. It is understood that, in case of force majeure (ie. international price disruption) forcing the GOT to revise its plans related to this subject, USAID and the GOT will convene a formal meeting to review the plan.

(ii) The Office of Cereals will develop and implement a plan for privatization of its feed production and distribution activities.

(iii) For all funds deposited in the Special Account, their programming will be discussed by the two appropriate authorities namely USAID and the GOT. Disbursements from the Special Account will be made by the appropriate Tunsian authorities on the basis of the mutually agreed-upon programming and implementation procedures.

3. Linkage to Mission Portfolio and Strategy

As mentioned in the previous section, the CIP supports the overall agricultural and economic strategy of AID in Tunisia. The importation of soya for animal feed strengthens both the dairy and poultry sectors, as they are dependent on supplementary grains for their viability. The GOT approval of the program focus and provisions reinforces AID support for the privatization and economic sustainability of the agriculture input marketing. The use of local currency generations from the CIP is of major importance to the overall AID program and strategy. The following section includes a list of activities that may be supported by special account funds, all of these uses being directly related to the Mission's strategy for strengthening the private sector in enterprise development and agriculture. Actual allocations will be made for mutually agreed-upon purposes, determined by both USAID/Tunisia and the GOT. CIP-generated funds will be used to support policy reform recommendations as described in the Agriculture Policy Implementation Project (664-0343) and the Irrigation and Water Management Project (FY 1988), as well as other agreed upon initiatives.

C. Local Currency Generation Uses

Through the CIP, local currency equivalent estimated to be approximately $7.56 million will be generated and deposited into a special account. This level is determined on the basis of the GOT paying the cost of soya (40,000 metric tons at $180 a ton) and the equivalent cost of shipping 20,000 metric tons on non-U.S. flag vessels (at $18 per metric ton), in Tunisian Dinars. The local currency equivalent should be about TD 6.05 million, at the current exchange rate of TD 0.8 per U.S. dollar. These monies will be jointly programmed by the GOT and AID/Tunisia.

In general, uses will be supportive of the joint AID-GOT development activities both ongoing and planned. A high degree of flexibility in programming is desirable, as changes may occur which would require alterations in actual expenditures.

## ILLUSTRATIVE LOCAL CURRENCY USAGE 1987 - 1990

The CIP Disbursement Coordinating Committee will propose uses of local currency proceeds based on the following: (a) support of policy reforms incorporated in the Structural Adjustment Program; (b) contribution to GDP growth over the short-to-medium term; (c) contribution to growth of employment; and, (d) impact in reducing Tunisia's current account deficit. The extent to which the proposed activity lends itself to monitoring and evaluation will also be an important factor in decision making. Among the potential uses of local currency proceeds that have been discussed with the GOT to date are:

1. Support of the Agriculture Policy Implementation Project (644-0343) policy reform recommendations.

   a. Financial support for the progressive transfer of responsibilities for the production, importation, storage and/or distribution of key agricultural inputs from GOT parastatal enterprises to private sector firms.

   b. Funding for pilot tests of new irrigation technologies requiring new equipment and infrastructure to improve water management and lower the unit costs of irrigation water.

   c. Financing certain expenses for pilot irrigation associations in public and private perimeters to increase the role of private decision-making in water management, input distribution, water pricing, and group marketing of agricultural produce.

   d. Credit to livestock producer cooperatives to finance domestic production and purchase of forages and concentrate feeds for small scale animal fattening programs.

   e. Development and implementation of more targeted social safety-net programs and support for nutritionally-vulnerable, low income groups in Tunisian society.

   f. Development and installation of an improved agricultural price and markets information service for agricultural producers to facilitate better and more timely marketing of key agricultural commodities.

   g. Improved on-farm and regional market warehousing and produce storage capacities to compensate for the diminishing role of the GOT in buying and storing agricultural commodities.

   h. Development of improved mechanisms for forecasting and rationalizing Tunisian agricultural imports in relation to projected consumer demand and producer supply responses.

i. Providing credit through the banking system to private agricultural input distributors, allowing them to purchase vehicles and equipment, to rent or purchase warehouse facilities, or for operational funds.

j. Providing funding to allow private irrigation associations to purchase irrigated perimeters from the GOT and operate them without government interventions or control.

k. Providing credit for the short-term production needs of Tunisian farmers engaged in particularly promising crop and/or livestock enterprises.

l. Providing operational and longer-term credits to private agro-industrial firms engaged in profitable and modernization of agricultural enterprises.

m. Providing adequate short-term financial backing for private cereals traders to purchase and store grains from farmers in the post-harvest period to increase buyer competition in the regional markets, and to prevent distress sales at low prices by needy farmers.

2. Improved Agriculture Water Management
   a. Staff support, O/E for expanded requirements under reforms
   b. Local currency for AID-GOT Irrigation Efficiency and Water Management Project.

3. Entrepreneurial Credit Support
   a. Commercial credit for import substitution activities
   b. Credit for new product development

As it is expected that a CIP will probably be programmed annually for several years in Tunisia, appropriate procedures and precedents must be established from the beginning. This includes the methodology and criteria for determining/programming local currency usage. This usage should be considered over an extended period, not just on an annual basis.

D. Assistance Impact and Analysis

Depending on soya price and shipping regulations, the CIP will have funding to purchase approximately 40,000 metric tons of soya pellets. The assumptions are that one-half of the shipping will be paid for by the GOT (on non-U.S. flag vessels) directly and that the soya will cost about $180 per metric ton. U.S. shipping is projected at $52 per MT, non-U.S. at $18 per MT.

Because of the drought, increased poultry farming, and expanded dairy operations, Tunisia has imported ever increasing amounts of various animal feeds. Although there are some discrepancies in the data provided by the Office des Céréales (see Annex B, Table 15), they show an increase from a low of 56,000 tons to a high of 119,000 tons of soya. Current importation projections are for

103,000 tons. The fluctuations are due to the change in the size of flocks and dairy herds, alterring because of culling and chick imports, and the availability of foreign exchange. Reduced pasturage and production of grains used in feed has led to higher needs, especially in FY 1986, yet purchases have not kept pace with the need because of the lack of foreign exchange. Through the provision of soya in the CIP, the GOT may have sufficient foreign exchange to meet the rest of the national demand for soya. Without the CIP, procurement levels will be lower. Lower quantities of animal feed will lead to a reduction in poultry and egg production and a reduced dairy herd and dairy products.

The impact of the CIP on the balance of payments position of Tunisia is not great, but will make a difference of .7 percent and reduce the export-import foreign exchange deficit to a negative $1128.5 million. The impact that local currency generation usage might make is much more difficult to measure. Certainly the two agricultural projects (Agriculture Policy Implementation Project and the Irrigation and Water Management Project) have the potential to generate substantial benefits to the nation, as does the provision of credit for agriculture and private enterprise development.

E. Past Performance of CIPs

In the 1960s and early 1970s, the CIP was an integral part of the USAID portfolio in Tunisia. Yet for over a decade the Mission had no such program and only reintroduced a CIP in FY 1986. The FY 86 CIP (664-K-601) was used to purchase corn (yellow maize) for animal feed. This was done on an emergency basis, as the drought badly affected the availability of feed and consequently livestock and poultry. Corn was received in October, 1986 and has been distributed to feed mills. By December 1986, all feed had been marketed and deposits in the special account have been made by the Office des Céréales.

The FY 1986 CIP did not include any conditionality beyond standard requirements and the establishment of a special account. Local currency generations are to be used to develop and improve pastures, support water and soil works, and for applying successful on-farm forage reserve research. No local currency has yet been disbursed for these activities.

## VII. IMPLEMENTATION AND ADMINISTRATION

### A. Implementation Plan

Part of the reasoning used in deciding to purchase soya under the FY 1987 CIP involved the ability to move the commodity quickly and generate local currency in a rapid, organized fashion. The disbursement of the local currency may take longer than one year, depending on the nature of activities agreed upon for support. The Program implementation plan is shown in the form of a chart, listing activities, implementor(s) and dates.

| Activity | Implementor(s) | Date |
|---|---|---|
| Finalization of PAAD | AID/Tunisia and AID/W | 3/87 |
| Approval of PAAD | AID/Tunisia and AID/W | 4/87 |
| Signing of Program Agreement | AID/Tunisia and GOT | 4/87 |
| Meeting of CPs | AID/Tunisia and GOT | 4/87 |
| IFB for purchase and shipping of soya | GOT(OC) and AID/W | 4/87 |
| Award of bid and first shipment | OC and shipper | 6/87 |
| Ground transfer of soya and milling | OC and millers | 6/87 |
| Second shipment of soya | OC and shipper | 7/87 |
| Distribution of first lot of feed | OC, millers, distributors | 7/87 |
| Ground transfer and milling of 2nd lot of soya | OC, millers | 8/87 |
| Plans for animal feed pricing and distribution | OC and GOT | 8/87 |
| Distribution of second lot of feed | OC, millers, distributiors | 9/87 |
| Deposit of 50% local currency in special account | GOT | 1/88 |
| Initial disbursement of local currency | GOT and AID/Tunisia | 2/88 |
| Deposit of balance of local currency in special account | GOT | 2/88 |
| PACD and program completion report | GOT and AID/Tunisia | 10/88 |

Unless the timing on pro^urement, shipping and milling is maintained, problems and delays may occur because of transport, storage and milling problems. Harvest of local grains generally starts in July and this can cause bottlenecks in storage and transport. Therefore, it behooves AID/W, AID/Tunisia and the GOT to move quickly on all aspects of the program.

## B. Monitoring and Evaluation

USAID/Tunisia will designate a CIP Manager to administer AID's field management responsibilities. Initially, this will entail ensuring that the Office des Céréales provides documentation showing the purchase and shipping of the soya. The CIP Manager must ensure that the Office des Céréales provides documentation of receipt of the soya in Tunis and a report on its distribution to the designated feed mills.

Quarterly statements for the Special Account for CIP sales proceeds showing balances and all transactions must be provided. Both the CIP Manager and AID Controller will have the responsibility of monitoring all transactions, making sure they correspond with agreed-upon disbursements/uses and that deposits total the amount stipulated in the Program Grant Agreement.

Disbursements for particular activities will have to be monitored up until the time they are deposited into activity accounts and/or are paid directly for agreed-upon purposes. This monitoring will also be the responsibility of both the Controller and CIP Manager. It is the responsibility of the GOT or recipient to provide documentation of such transfers or transactions.

All records will be maintained and stored by the AID Controller.

Compliance with the covenants shown in the Program Grant Agreement is the responsiblity of the GOT and Office des Céréales. The CIP Manager will be responsible for monitoring and evaluating compliance, documenting it through the Project Implementation Report form and any other required reports.

Formal evaluation of the CIP will not be stipulated in the Program Grant Agreement. Decisions on whether to conduct evaluations will be made by the Mission, a decision depending on circumstances and the judgement of the staff involved in implementation and monitoring. A Program Completion Report should be done at the time that all local currencies are disbursed from the Special Account.

## C. Administrative Responsibilities

Major responsibilities were laid out in the previous section, where tracking and liaison are principally the concern of the CIP Manager and AID Controller, and reporting and implementation are the responsibility of the management unit to be designated by the GOT and approved by USAID.

Decisions on the use of local currency will be made jointly by the Mission and by the GOT (Secrétariat of State for International Cooperation). Formal arrangements should be stipulated in the Program Agreement. When the funds allocation coordinating

68mmittee is formed, with representation from key ministries, this should also be stated or covered through a Program Implementation Letter.

D. Staffing Requirements

AID/Tunisia will probably not require additional staff to carry out the FY 1987 CIP, as the procurement and distribution of soya will not be a complicated matter and will be handled almost totally by OC. If future CIP's entail procurement of various other commodities, as illustrated in Section VI B1, then the Mission will probably require a minimum of part-time assistance from an AID Supply Management Officer (perhaps three months per annum) and a full-time local hire program manager. The responsibilities under the envisioned FY 1987 CIP could be handled by the FY 1986 CIP Manager, AID Controller, and the Mission Director, with perhaps short-term assistance from an SMO (two-three weeks per annum).

The GOT will probably not need additional staff to carry out the FY 1987 CIP. The government will be required to designate individuals with responsibility for programming allocations of local currency, for designing the plans required as part of the covenants (shown in Section VI B2), and for implementing those plans once designed. Procurement, shipment and distribution of soya will be handled by OC staff, as it has done historically. The OC has performed these tasks quickly and professionally and is capable of continuing to do so.

E. Establishment and Management of the Special Account

Under the terms of the Program Agreement, the GOT will open a special account at the Treasury of Tunisia for the FY 1987 CIP. This special account will have deposited in it local currency at an agreed-upon level, less actual and documented handling/distribution charges incurred by Office des Cereals. It will be the responsibility of the GOT, through the OC or other designated body, to see that the full amount in dinars is deposited within six months (180 days) of receipt in country of the soya.

Once the dinars are deposited in the special account, the Central Bank will be required to provide quarterly statements of the account, showing balances and all transactions to the GOT and to AID/Tunisia. The AID Controller and Program Manager will be responsible for monitoring the special account.

Disbursements from the special account will be made only upon authorization of the Secretary of State for International Cooperation or designated official and the AID/Tunisia Director or appointee. These disbursements will be for purposes agreed upon as stipulated in the Program Agreement. Once a disbursement is made for an agreed-upon purpose, whether as a direct payment for goods or services or into the account of a chosen project or activity, the local currency is considered as having been expended and any further monitoring/tracking under the CIP will not be required.

Once all local currency required by agreement has been both deposited and disbursed, the special account will be closed and responsibilities for management will be completed.

F. Zorinsky Amendment

Under the terms of the Zorinsky Amendment, the world-wide commodity import programs are required to utilize 18 percent of all funds for the purchase of U.S. agricultural products. For any given CIP, the percentage may vary, but compliance requires that in the aggregate the 18 percent rule must be met. In the case of the Tunisia FY 1987 CIP, all funds will be used to purchase U.S. agricultural products, as fully 100 percent is used to purchase U.S. soya. Therefore, the CIP is in full compliance with the requirements of the Zorinsky Amendment.

The Usual Marketing Requirements (UMR) provision for the U.S. is not hindered by the procurement of soya under the CIP, as the grant expands the amount to be procurred from U.S. sources. The USDA and State Department are responsible for compliance by the U.S. with FAO consultative obligations. Both agencies have been fully informed of AID/GOT intentions.

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

The CIP will have a small, but positive, impact on the U.S. balance of payments, as the grant will be spent for the purchase of U.S. agricultural products. The program will support trade relations between the U.S.A. and Tunisia.

H. Initial Environmental Examination

The program has no construction component and will have no direct impact on the environment. This is spelled out in Annex F. A negative determination was made by the Environmental Officer for ANE on March 2, 1987 and reported in State 061243. (See Annex F.)

I. Procurement and Contractual Arrangements

The preparation of invitations for bid, the receipt of bids and award, contracting for the purchase and shipment of goods, and the receipt of goods will be the responsibility of the GOT. Signatories to such contracts will be delegated by the Secretary of State for International Cooperation (generally to the Office de Céréales). In any case, implementation has been carried out by the OC. The AID Mission will be responsible for monitoring all actions and checking compliance with all pertinent AID regulations.

Distribution of the soya, both to millers and to distributors, is also the purview of the OC, and reports on distributions are required by the Mission. Tunisian port and warehouse capabilities are considered adequate for receiving and storing soya pellets. There have been some receiving bottlenecks in the past, due to weather-related and harvest congestion problems, but basically the system is adequate. The OC has shown its professional capability to carry out appropriate programming and scheduling for CIP grain purchases, shipment and distribution.

The facilities at Bizerte, Gabes and Sfax are reasonable for receiving and onward in-country shipping of soya pellets. The soya will have to be bagged on board (shipped by freighter in bulk), which has been done historically at all three ports at a rate of about 750 tons per shift (eight hours). Assuming 20,000 tons per shipment, each shipment will take about 27 days for unloading. All three ports have sufficient warehousing for temporary storage. The GOT will arrange shipping, probably using a Tunisian flag carrier for 50% of the commodities. The Program Agreement should state that it is the full responsibility of the GOT to absorb the cost of delays and/or any losses that may occur in shipping.

## VII. ANNEXES

A. GOT Request for Assistance

B. Economic Statistical Tables

C. Agriculture Strategy Statement Summary

D. GOT/IBRD Agriculture Sector Adjustment Program Summary

E. Initial Environmental Examination

F. Statutory Checklists

G. Bibliography

## ANNEX A

### Analysis of Animal Feed Subsector in Tunisia.

1. The development of a sizable commercial animal feed industry is a relatively recent event. Production of commercial animal feeds in Tunisia totalled only 32,000 Tons in 1972. Production increased rapidly through the 1970s to peak at 642,000 Tons in 1982, when subsidies were greatly reduced. (See Table A-I)

TABLE A-I

PRODUCTION OF CONCENTRATE FEEDS IN TUNISIA
1980-1984

| Year | Factories (Numbers) | Daily Capacity (Tons) | Production (000 Tons) | | |
|---|---|---|---|---|---|
| | | | Poultry | Others | Total |
| 1980 | n.a | n.a. | 293 | 181 | 474 |
| 1981 | 134 | 5,042 | 327 | 315 | 642 |
| 1982 | 170 | 5,511 | 360 | 196 | 556 |
| 1983 | 180 | 5,800 | 257 | 102 | 359 |
| 1984 | 187 | 6,000 | 313 | 108 | 421 |

2. The industry in Tunisia is characterized by the following: (a) its development was synchronous with that of the commercial industrial poultry industry; to a large extent, demand for commercial animal feeds in Tunisia is dependant on the poultry industry (see Table A-I); (b) its development was spurred by high subsidies, which amounted to as much as one-half of component prices in 1981 (see Table A-II); (c) the industry is heavily import-dependant, with imported ingredients accounting for between 63 and 94 percent of feed prices (subsidized). (See note 2 for Table A-III); and (d) the feed fabrication industry is characterized by over capacity. The 187 concentrate production units have a combined capacity of 2.1 million tons per year, for a market estimated at no more than 500,000 tons.

3. Subsidies for animal feeds cost the GOT 125.8 million TD (about $150 million, at current rates of exchange) between 1981 and 1986 (see Table A-IV). In 1986, subsidies totalled 12.6 million TD, or about $15 million. The GOT, as part of the IBRD Agricultural Sector Adjustment Loan, is committed to eliminating animal feed subsidies by the 1989/90 Crop Year. During 1987 the GOT will import 362,300 tons of animal feed components eligible for subsidization (see Table A-2 below).

## TABLE A-2

**PLANNED IMPORTS OF ANIMAL FEED COMPONENTS: 1987**
(tons)

| | Total for for Year | Scheduled for delivery by end April | Rest of Year |
|---|---|---|---|
| Soycake | 91,850 | 15,000 | 86,500 |
| Corn | 267,300 | 50,000 | 217,300 |
| Barley | 58,500 | - | 58,500 |
| | | TOTAL | 362,300 |

4. The following important observations are made the effect of subsidizing commercial animal feeds in Tunisia:

(a) the subsidies are regressive, in as much as the poor benefit very little, since the final products subsidized account for a small fraction of their budgets (in contrast to cereals subsidies, where cereal products account for a high proportion of budgets for poor Tunisians).

(b) the subsidies operate directly to the disadvantage of locally-produced substitute products, which include triticale, fish meal, organic by products, and barley. Subsidy of concentrate feeds, in the case of cattle and sheep is also considered to operate against the development of improved pastures.

(c) the GOT is faced with unprecedented budget stringency during the next five years as it implements its Structural Adjustment Program; within this context, subsides which benefit primarily the middle class are considered a luxury, and consequently, animal feed subsidies are considered a candidate for elimination on a priority basis.

## TABLE A - III

## ANIMAL FEED PRICES: PRICE FORMATION 1981-1987
(DINARS PER TON)

| Number | Cost composents | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|---|---|---|
| 1 | Ingredient | | | | | 139.688 | 151.198 | 177.965 |
| | Other | | | | | 34.812 | 36.552 | 37.635 |
| | Total | | 108.8 | 119.3 | 266.500 | 174.500 | 187.750 | 215.600 |
| 2 | Ingredient | | | | | 136.175 | 151.866 | 175.397 |
| | Other | | | | | 34.125 | 35.994 | 37.403 |
| | Total | | 106.4 | 116.2 | 162.500 | 170.300 | 187.860 | 212.800 |
| 3 | Ingredient | | | | | 114.093 | 126.763 | 151.875 |
| | Other | | | | | 29.807 | 31.774 | 35.375 |
| | Total | | 92.0 | 113.3 | 139.200 | 143.900 | 158.537 | 187.250 |
| 4 | Ingredient | | | | | 116.394 | 128.394 | 151.827 |
| | Other | | | | | 30.256 | 32.093 | 35.373 |
| | Total | | 93.5 | 101.0 | 140.600 | 146.650 | 160.487 | 187.200 |
| 5 | Ingredient | | | | | 108.137 | 109.373 | 113.368 |
| | Other | | | | | 28.641 | 28.883 | 32.032 |
| | Total | | 94.4 | 105.0 | 124.506 | 136.778 | 138.256 | 145.400 |
| 7 | Ingredient | | | | | 110.910 | 116.082 | 122.039 |
| | Other | | | | | 29.166 | 29.764 | 32.761 |
| | Total | | 98.6 | 106.0 | 135.500 | 139.985 | 145.846 | 154.800 |

NOTE: 1. Animal Feeds Composition

| Number 1 | Number 2 | Number 3 | Number 4 | Number 5 | Number 7 |
|---|---|---|---|---|---|
| 60% corn | 69% corn | 66% corn | 60% corn | 71% barley | 50.5% barley |
| 36% soja c* | 27% soja c | 17% soja c | 30% soja c | 12% soja c | 23% soja c |
| 4% CMV** | 4% CMV | 13% bran | 4% CMV | 10% bran | 16.5% bran |
| | | | 2% calcium | 5% CMV | 5 % CMV |
| | | | | 2% salt | 5 % salt |

Source: Office of Cereals and Ministry of Commerce and Industry

NOTE: 2. The Office of Cereals markets both imported and locally produced barley. The percentage of imported ingredient costs for animal feeds of selling price with barley included is as follows: No.1 - 69.5%; No.2 - 67.7%; No.3 - 63.5%; No.4 - 73.6%; No.5 - 94.5%; No.7 - 65.3%.

Barley is included only in animal feeds grade 5 and 7. The percentage of imported ingredient costs with barley exluded for those grades is: No.5 - 42% and No.7 - 30.3%. The Office of Cereals is currently importing its barley requirements.

TABLE A - IV

TONS OF ANIMAL FEED COMPONENTS SUBSIDIZED, GOT SUBSIDY COST AVERAGE

Subsidy per Ton, Selling Price, and Avarage Procurement Cost

| | | 1981 | 1982 | 1983 | 1984 | 1985 | 1986[3] |
|---|---|---|---|---|---|---|---|
| SOYCAKE | Tons Subsidized | 96,700 | 92,500 | 87,100 | 87,500 | 90,000 | 122,000 |
| | GOT Subsidy Cost (MTD) | 11.000 | 9.806 | 2.732 | 5.162 | 4.250 | 5.200 |
| | Ave TD Subsidy per Ton | 113.75 | 106.01 | 31.36 | 58.99 | 47.22 | 46.62 |
| | Selling Price[1] | 65-120 | 120-180 | 180-180.6 | 183.6 | 183.6-204 | 204 |
| | Ave. TD/TON Procurem. Cost[2] | 180.06 | 209.64 | 255.23 | 253.31 | 200.00 | 234,00[4] |
| CORN | Tons Subsidized | 278,800 | 317,200 | 220,000 | 240,000 | 212,800 | 249,000 |
| | GOT Subsidy Cost (MTD) | 19.700 | 17.790 | 5.799 | 17.158 | 13.709 | 4.400 |
| | Ave TD Subsidy per Ton | 70.66 | 56.08 | 26.36 | 71.49 | 64.42 | 17.67 |
| | Selling Price | 31-55 | 55-86.7 | 86.7 | 86.7 | 103.3-127.5 | 127.5 |
| | Ave. TD/TON Procurem. Cost | 104.45 | 106.78 | 128.38 | 166.34 | 151.14 | 125.00[4] |
| BARLEY | Tons Subsidized | 50,300 | 83,300 | 72,100 | 105,500 | 88,600 | 210,900 |
| | GOT Subsidy Cost (MTD) | .400 | .615 | .191 | 1.711 | 3.187 | 3.000 |
| | Ave TD Subsidy per Ton | 7.95 | 7.38 | 2.65 | 16.21 | 35.97 | 14.22 |
| | Selling Price | 30-80.1 | 80.1-95.7 | 95.2 - 102.4 | 102.4 - 107.4 | 107.4 | 107.4 |
| | Ave. TD/TON Procurem. Cost | - | - | - | - | 157.09 | 109.66 |

$1.00 = .85 TD

Source: Ministry of Commerce and Industry and Office of Cereals;

NOTES: (1) In the cases where two prices are reported, adjustment was made during the course of the year (TD/TON).

(2) Average procurement costs for imports only: CIF + handling costs (TD/TON).

(3) All figures for 1986 are preliminary estimates.

(4) Because of differences in accounting and the period in which subsidies are costed, btween the Ministry of Commerce and Industry and the Office of Cereals, subsidy cannot be computed as the difference between procurement cost and selling price.

5. Aside from the direct budgetary cost imposed by subsidies the animal feed subsector has imposed other direct and indirect costs on the Tunisian economy-at-large. The excess feed fabrication capacity referred to in paragraph (1) above is the result of investment subsidies which, between subsidies for capital equipment and subsidized interest rates, lower investment costs by as much as one-half. In addition, industrial poultry operations, from which the animal feed industry primarily derives its demand, also benefits from investment and interest rate subsidies (Poultry industry subsidies accounted for 85% of funds loaned under the heavily subsidized FOSDA Program FROM 1975 TO 1979).

The combined effect of concentrate feed, equipment, and interest rate subsidies has been to: (a) make available, primarily to middle class Tunisians, poultry and meat products at much lower prices than would otherwise be the case; (b) transform poultry industry structure, from production by small producers, who benefit much less from subsidies, to large industrial producers who benefit from the full complement of subsidies; (c) orient the animal feed industry toward subsidized imported ingredients, and thereby (d) increase Tunisia's agricultural trade deficit.

6. In addition to the negative economic effects of animal feed subsidization outlined above, continuation of animal feed subsidies would be inconsistant with the GOT's Structural Adjustment Program for other reasons. In large part, the success of the Structural Adjustment Program is dependant on trade liberalisation by the GOT. Subsidizing poultry, egg, and meat production imposes immediate requirements for export trade barriers (unless the GOT wants to subsidize consumers in other countries) which is wholly inconsistent with the thrust of the Structural Adjustment Program.

7. Given that the GOT has been moving to reduce animal feed subsidies since 1982, when, for example, soycake prices were increased 85% and corn prices 58%, and since international prices for animal feed prices declined steeply during 1986, the GOT is now faced with a unique opportunity to wean its poultry and cattle subsectors from subsidized feeds. Table A-V shows prices for imported animal feed components compared to their real costs. At the present time, corn is not subsidized at all, soycake receives only a 13% subsidy, and barley a 2% subsidy. Price increases for soycake and corn that would be needed to eliminate subsidies and allow a small level of protection for domestic production, as recommended by the IBRD under the Agricultural Structural Adjustment Loan, for these products would only be in the 15-20 range, which is small compared to the increases in prices for corn and soycake in 1982. While abrupt change in world market prices levels would require greater adjustment, all indications are that world market prices for these commodities will remain depressed, for at least the next 3-5 years.



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## TABLE A-V

## COST-PRICE COMPARISON
## FOR
## IMPORTED ANIMAL FEED COMPONENTS
## 1986 - (TD-TON)

| | Office of Cereals Cost | Office of Cereals Price | Difference | [illegible] |
|---|---|---|---|---|
| Corn | [illegible] | 137.50 | [illegible] 2.50 | [illegible] |
| Soybeans | 274.00 | 304.00 | - 30.00 | [illegible] |
| Barley | 109.65 | 117.40 | - 8.24 | [illegible] |

3. The GOT adjusts most agricultural input and output prices in July to coincide with the beginning of the new agricultural year. Accordingly, the following price adjustment schedule is suggested for animal feeds:

(a) May-June of each year, the GOT would estimate costs for importing the following agricultural year's requirements for animal feed components. Organized futures markets and [illegible] data would provide more than enough information for making this determination. The GOT could [illegible] hedge in future markets to limit risk of price increases.

(b) In July, based on the analysis as per (a) above, the GOT would set animal feed component prices with a [illegible]:

(1) setting prices at a level where the GOT [illegible] all acquisition and handling costs; and

(2) setting prices at a level where a minimal level of protection (10-15%) is provided to Tunisian production of animal feed components.

(c) concurrent with (b) above, the GOT would set prices for locally priced animal feed components, primarily triticale* and barley, based on anticipated [illegible] levels.

* Triticale is a corn substitute that the GOT is encouraging farmers to produce through subsidies. It is not [illegible] preferred by feed fabricators because it has a lower [illegible] value than corn. Production in 198[illegible] was less than [illegible] tons. While a development argument can be made for using subsidies to establish local production, it is recommended that the GOT establish both a cap and expiration date for application of the subsidies.





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9. Elimination of animal feed subsidies will not resolve all policy issues facing the subsector. Four additional issues, which are often interrelated, and which will require more time to resolve, will remain: (a) price control, at wholesale and retail levels, for animal feeds and components; (b) investment and interest rate subsidies; (c) the monopoly of the Tunisian parastatal agency, the Office of Cereals, for importing components; and (d) the effective access of animal feed fabricators to imported supplies required to satisfy demand. These are discussed below.

10. Wholesale prices at which the Office of Cereals sells animal feed components are set by the GOT. While regulated wholesale prices can be considered normal in a situation above a monopoly wholesaler supplies the market, the lifting of the Office of Cereals importation monopoly would permit competition at the wholesale level, if other potential importers were to have effective access to foreign exchange for importing components. Adequate competition at the wholesale level would eliminate the need to control prices at that level, and the wholesale price determination mechanism described in para (8) above.

11. The issue of retail price controls for animal feeds is a complex one, and is very much interrelated with the issue of effective access to imported animal feed components by feed fabricators. In theory, in a situation where demand for imported feed components was fully satisfied, competition between the 187 feed mills in Tunisia would render retail price controls redundent. Since however, supplies of components may be constrained by lack of foreign exchange availability, removal of retail price controls could enable fabricators having access to components to make monopoly profits by exploiting users. In this situation, opportunity for corruption would also be improved, since effective access to supplies would have considerable worth.

For the reasons stated above, lifting of retail price controls would require that the supply of animal feeds would not be constrained by foreign exchange availability. Although retail price controls are scheduled to be abolished on January 2, 1988, actual implementation of that action will likely be dependent on the feed supply situation at that time.

In addition, the competitive enironment at the retail level for animal feeds may vary between the various types of feeds produced. For all of these reasons, it is recommended that removal of price controls for animal feeds, which is scheduled for January 1988, be the subject of a special study, which would establish the modalities for equitable removal of price controls.

12. The GOT's Office of Cereals has a legal monopoly on the purchase distribution and importation of all food/feed grains in Tunisia. While this arrangement may offer Tunisia some advantages in economies-of-scale for cereals marketing, it also entails a number of disadvantages notably: (a) a parastatal organisation operating on a cost-plus basis has little incentive to contain costs, (b) the parastatal organisation lacks the flexibility inherent in smaller private businesses for serving

specific market niches; and (c) use of the parastatal inherently increases risks for the GOT in managing the food/feed grains sector, since it only requires a single organisation to be wrong on an important issue for the entire subsector to be mismanaged.

The GOT has an extremely crowded agenda for privatisation of parastatal companies during the next five years. (The objective is to reduce the number of such companies from 540 to 140). The Office of Cereals is considered a "strategic" parastatal, and is not scheduled for privatisation. Nonetheless, it is recommended that privatisation of food/feed grain marketing be the object of a special study that would establish a strategic plan for: (a) reducing the Office of Cereals role in at least some segments of the food/feed grain marketing subsector; (b) assuring full coverage of marketing needs on both the buying and selling side of the cereals markets; and (c) improving competition in the subsector.

13. Effective access by feed fabricators to imported supplies is a crucial issue that will greatly affect the feasibility of decontrolling pricing for annual feeds during the coming years. (See paras 10 and 11 above) The Tunisian Dinar is not a freely convertable currency; import of animal feed components must be licensed, and foreign exchange allocations from the Central Bank of Tunisia must be received to finance the import. Foreign exchange is critically short in Tunisia, and it is not at all clear that demand for feed grains can be fully met during coming years. Ability to fully satisfy demand would permit price decontrol for animal feeds to proceed rapidly; lack of ability to satisfy demand would place heavy constraints on price liberalization (see para 11).

REPUBLIQUE TUNISIENNE

MINISTERE
DES
AFFAIRES ETRANGERES

N° NH/FH 84/1
S.E.C.I

Tunis, le 25 MARS 1987

MONSIEUR LE DIRECTEUR DE LA MISSION SPECIALE AMERICAINE DE COOPERATION ECONOMIQUE ET TECHNIQUE EN TUNISIE

- TUNIS -

OBJET / Coopération Tuniso-américaine : programmation des Fonds de Soutien Economique (E.S.F) de l'année 1987.

-=0=-

Suite aux divers entretiens qui ont eu lieu entre les services tunisiens compétents et la Mission US/AID - Tunis au sujet de la programmation des Fonds de Soutien Economique de l'année 1987 (15,7 Millions de $ US), j'ai l'honneur de porter à votre connaissance que le Gouvernement tunisien donne son accord pour l'imputation sur les 15,7 Millions de $ US, les fonds suivants :

- 8,253 Millions de $ US pour le programme d'importation (C.I.P - 1987).

- 5 Millions de $ US pour le projet de transfert de technologie 664 - 0315.

Je vous saurais gré de bien vouloir porter ce qui précède à la connaissance de vos autorités compétentes.

En vous remerciant pour votre coopération en l'objet je vous prie d'agréer, Monsieur le Directeur l'expression de ma considération distinguée.

Le Secrétaire d'Etat auprès
du Ministre des Affaires Etrangères
Chargé de la Coopération Internationale

Ahmed BEN ARFA

61.

ANNEX C

## Economic Statistical Tables

Table



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Table 1(a): Balance of Payments
Current Dinars -- GOT Projections

| | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | Growth rates: '85-86 | '86-87 | '87-88 |
|---|---|---|---|---|---|---|---|---|---|---|
| Trade Balance | -505.9 | -473.6 | -728.8 | -423.2 | -590.0 | -509.4 | -469.0 | 39.4% | -13.7% | -7.9% |
| Exports | 1773.3 | 1947.8 | 2113.7 | 2253.1 | 2115.0 | 2470.3 | 2760.6 | -6.1% | 16.8% | 11.8% |
| Goods | 1169.4 | 1262.6 | 1399.1 | 1443.0 | 1320.0 | 1520.2 | 1669.5 | -8.5% | 15.2% | 9.8% |
| Goods (ex. energy) | 631.5 | 698.0 | 779.8 | 839.4 | 1002.0 | 1218.1 | 1400.6 | 19.4% | 21.6% | 15.0% |
| Agriculture etc | 107.0 | 97.3 | 147.0 | 143.5 | 175.0 | 225.0 | 257.4 | 22.0% | 28.6% | 14.4% |
| Phosphates, chem | 206.2 | 239.5 | 244.0 | 267.9 | 285.0 | 320.1 | 359.1 | 6.4% | 12.3% | 12.2% |
| Energy | 537.9 | 564.6 | 619.3 | 603.6 | 318.0 | 302.1 | 268.9 | -47.3% | -5.0% | -11.0% |
| Textiles, leather | 236.6 | 270.3 | 269.4 | 310.6 | 395.0 | 490.0 | 571.8 | 27.2% | 24.1% | 16.7% |
| Other | 81.7 | 90.9 | 119.4 | 117.4 | 147.0 | 183.0 | 212.3 | 25.2% | 24.5% | 16.0% |
| Services | 603.9 | 685.2 | 714.6 | 810.1 | 795.0 | 950.1 | 1091.1 | -1.9% | 19.5% | 14.8% |
| Tourism | 340.0 | 389.2 | 357.5 | 416.0 | 390.0 | 480.1 | 550.7 | -6.3% | 23.1% | 14.7% |
| Transp. & insur. | 150.1 | 158.4 | 164.9 | 165.5 | 167.0 | 200.0 | 232.0 | 0.9% | 19.8% | 16.0% |
| Gas adjust. | | 8.1 | 36.6 | 49.0 | 30.0 | 30.0 | 30.0 | -38.8% | 0.0% | 0.0% |
| Other | 113.8 | 129.5 | 155.6 | 179.6 | 208.0 | 240.0 | 278.4 | 15.8% | 15.4% | 16.0% |
| Imports | 2279.2 | 2421.4 | 2842.5 | 2676.3 | 2705.0 | 2979.7 | 3229.6 | 1.1% | 10.2% | 8.4% |
| Goods (CIF) | 2002.0 | 2106.4 | 2511.0 | 2287.0 | 2260.0 | 2474.8 | 2681.7 | -1.2% | 9.5% | 8.4% |
| Freight/insur | 101.2 | 119.8 | 157.1 | 142.0 | 125.0 | 135.0 | 144.5 | -12.0% | 8.0% | 7.0% |
| Goods (FOB) | 1900.8 | 1986.6 | 2353.9 | 2145.0 | 2135.0 | 2339.8 | 2537.3 | -0.5% | 9.6% | 8.4% |
| Equipment | 609.4 | 539.7 | 652.0 | 503.2 | 470.0 | 430.0 | 442.9 | -6.6% | -8.5% | 3.0% |
| Primary, semi-mfd. | 620.9 | 623.7 | 769.0 | 744.6 | 840.0 | 1020.0 | 1143.4 | 12.8% | 21.4% | 12.1% |
| Energy | 222.7 | 235.6 | 289.4 | 308.4 | 160.0 | 165.0 | 170.6 | -48.1% | 3.1% | 3.4% |
| Foodstuffs | 210.5 | 294.8 | 363.0 | 278.2 | 300.0 | 309.9 | 318.3 | 7.8% | 3.3% | 2.7% |
| Consumption goods | 338.5 | 412.6 | 437.6 | 452.6 | 490.0 | 550.0 | 606.6 | 8.3% | 12.2% | 10.3% |
| Services | 378.4 | 434.8 | 488.6 | 531.3 | 570.0 | 639.9 | 692.4 | 7.3% | 12.3% | 8.2% |
| Travel | 87.2 | 92.0 | 109.9 | 105.3 | 105.0 | 115.0 | 124.4 | -0.3% | 9.5% | 8.2% |
| Transp. & insur. | 200.7 | 217.9 | 230.1 | 230.4 | 235.0 | 255.0 | 275.9 | 2.0% | 8.5% | 8.2% |
| Government expense | 62.6 | 90.1 | 98.6 | 136.8 | 160.0 | 185.0 | 200.1 | 17.0% | 15.6% | 8.2% |
| Other | 27.9 | 34.2 | 50.0 | 58.8 | 70.0 | 85.0 | 91.9 | 19.0% | 21.4% | 8.2% |

Table 1(b): Balance of Payments
Dollar Equivalent -- GOT Projections

| | 1982 | 1983 | 1984 | 1985 | Est. 1986 | Projected 1987 | Projected 1988 | Growth rates: '85-86 | '86-87 | '87-88 |
|---|---|---|---|---|---|---|---|---|---|---|
| Exchange Rate | 0.5907 | 0.6788 | 0.7768 | 0.8345 | 0.795 | 0.85 | 0.927 | | | |
| Trade Balance | -856.4 | -697.7 | -938.2 | -507.1 | -742.1 | -599.3 | -506.0 | 46.3% | -19.3% | -15.6% |
| Exports | 3002.0 | 2869.5 | 2721.0 | 2699.9 | 2660.4 | 2906.2 | 2978.0 | -1.5% | 9.2% | 2.5% |
| Goods | 1979.7 | 1860.0 | 1801.1 | 1729.2 | 1660.4 | 1788.4 | 1801.0 | -4.0% | 7.7% | 0.7% |
| Goods (ex. energy) | 1069.1 | 1028.3 | 1003.9 | 1005.9 | 1260.4 | 1433.0 | 1510.9 | 25.3% | 13.7% | 5.4% |
| Agriculture etc | 181.1 | 143.3 | 189.2 | 172.0 | 220.1 | 264.7 | 277.7 | 28.0% | 20.3% | 4.9% |
| Phosphates, chem | 349.1 | 352.8 | 314.1 | 321.0 | 358.5 | 376.5 | 387.4 | 11.7% | 5.0% | 2.9% |
| Energy | 910.6 | 831.8 | 797.2 | 723.3 | 400.0 | 355.4 | 290.0 | -44.7% | -11.1% | -18.4% |
| Textiles, leather | 400.5 | 398.2 | 346.8 | 372.2 | 496.9 | 576.5 | 616.9 | 33.5% | 16.0% | 7.0% |
| Other | 138.3 | 133.9 | 153.7 | 140.7 | 184.9 | 215.3 | 229.0 | 31.4% | 16.4% | 6.4% |
| Services | 1022.3 | 1009.4 | 919.9 | 970.8 | 1000.0 | 1117.8 | 1177.0 | 3.0% | 11.8% | 5.3% |
| Tourism | 575.6 | 573.4 | 460.2 | 498.5 | 490.6 | 564.8 | 594.0 | -1.6% | 15.1% | 5.2% |
| Transp. & insur. | 254.1 | 233.4 | 212.3 | 198.3 | 210.1 | 235.3 | 250.2 | 5.9% | 12.0% | 6.4% |
| Gas adjust. | 0.0 | 11.9 | 47.1 | 58.7 | 37.7 | 35.3 | 32.4 | -35.7% | -6.5% | -8.3% |
| Other | 192.7 | 190.8 | 200.3 | 215.2 | 261.6 | 282.4 | 300.4 | 21.6% | 7.9% | 6.4% |
| Imports | 3858.5 | 3567.2 | 3659.2 | 3207.1 | 3402.5 | 3505.5 | 3483.9 | 6.1% | 3.0% | -0.6% |
| Goods (CIF) | 3389.2 | 3103.1 | 3232.5 | 2740.6 | 2842.8 | 2911.5 | 2892.9 | 3.7% | 2.4% | -0.6% |
| Freight/insur | 171.3 | 176.5 | 202.2 | 170.2 | 157.2 | 158.8 | 155.8 | -7.6% | 1.0% | -1.9% |
| Goods (FOB) | 3217.9 | 2926.6 | 3030.3 | 2570.4 | 2685.5 | 2752.7 | 2737.1 | 4.5% | 2.5% | -0.6% |
| Equipment | 1031.7 | 795.1 | 839.3 | 603.0 | 591.2 | 505.8 | 477.7 | -2.0% | -14.4% | -5.6% |
| Primary, semi-mfd. | 1051.1 | 918.8 | 990.0 | 892.3 | 1056.6 | 1200.0 | 1233.4 | 18.4% | 13.6% | 2.8% |
| Energy | 377.0 | 347.1 | 372.6 | 369.6 | 201.3 | 194.1 | 184.0 | -45.5% | -3.6% | -5.2% |
| Foodstuffs | 356.4 | 434.3 | 467.3 | 333.4 | 377.4 | 364.6 | 343.3 | 13.2% | -3.4% | -5.8% |
| Consumption goods | 573.0 | 607.8 | 563.3 | 542.4 | 616.4 | 647.0 | 654.4 | 13.6% | 5.0% | 1.1% |
| Services | 640.6 | 640.5 | 629.0 | 636.7 | 717.0 | 752.8 | 746.9 | 12.6% | 5.0% | -0.8% |
| Travel | 147.6 | 135.5 | 141.5 | 126.2 | 132.1 | 135.3 | 134.2 | 4.7% | 2.4% | -0.8% |
| Transp. & insur. | 339.8 | 321.0 | 296.2 | 276.1 | 295.6 | 300.0 | 297.6 | 7.1% | 1.5% | -0.8% |
| Government expense | 106.0 | 132.7 | 126.9 | 163.9 | 201.3 | 217.6 | 215.9 | 22.8% | 8.1% | -0.8% |
| Other | 47.2 | 51.3 | 64.4 | 70.5 | 88.1 | 100.0 | 99.2 | 25.0% | 13.5% | -0.8% |

Table 1(c): Balance of Payments
Current Dinars -- Mission Estimates

| | 1982 | 1983 | 1984 | 1985 | Est. 1986 | Projected 1987 | Projected 1988 | Growth rates: '85-86 | '86-87 | '87-88 |
|---|---|---|---|---|---|---|---|---|---|---|
| Trade Balance | -505.9 | -473.6 | -728.8 | -423.2 | -590.0 | -539.6 | -517.0 | 39.4% | -8.5% | -4.2% |
| Exports | 1773.3 | 1947.8 | 2113.7 | 2253.1 | 2115.0 | 2461.4 | 2734.8 | -6.1% | 16.4% | 11.1% |
| Goods | 1169.4 | 1262.6 | 1399.1 | 1443.0 | 1320.0 | 1567.5 | 1708.1 | -8.5% | 18.7% | 9.0% |
| Goods (ex. energy) | 631.5 | 698.0 | 779.8 | 839.4 | 1002.0 | 1203.0 | 1383.7 | 19.4% | 20.1% | 15.0% |
| Agriculture etc | 107.0 | 97.3 | 147.0 | 143.5 | 175.0 | 225.0 | 257.4 | 22.0% | 28.6% | 14.4% |
| Phosphates, chem | 206.2 | 239.5 | 244.0 | 267.9 | 285.0 | 305.0 | 342.2 | 6.4% | 7.0% | 12.2% |
| Energy | 537.9 | 564.6 | 619.3 | 603.6 | 318.0 | 364.5 | 324.4 | -47.3% | 14.6% | -11.0% |
| Textiles, leather | 236.6 | 270.3 | 269.4 | 310.6 | 395.0 | 490.0 | 571.8 | 27.2% | 24.1% | 16.7% |
| Other | 81.7 | 90.9 | 119.4 | 117.4 | 147.0 | 183.0 | 212.3 | 25.2% | 24.5% | 16.0% |
| Services | 603.9 | 685.2 | 714.6 | 810.1 | 795.0 | 893.9 | 1026.7 | -1.9% | 12.4% | 14.8% |
| Tourism | 340.0 | 389.2 | 357.5 | 416.0 | 390.0 | 423.9 | 486.2 | -6.3% | 8.7% | 14.7% |
| Transp. & insur. | 150.1 | 158.4 | 164.9 | 165.5 | 167.0 | 200.0 | 232.0 | 0.9% | 19.8% | 16.0% |
| Gas adjust. | 0. | 8.1 | 36.6 | 49.0 | 30.0 | 30.0 | 30.0 | -38.8% | 0.0% | 0.0% |
| Other | 113.8 | 129.5 | 155.6 | 179.6 | 208.0 | 240.0 | 278.4 | 15.8% | 15.4% | 16.0% |
| Imports | 2279.2 | 2421.4 | 2842.5 | 2676.3 | 2705.0 | 3001.0 | 3251.8 | 1.1% | 10.9% | 8.4% |
| Goods (CIF) | 2002.0 | 2106.4 | 2511.0 | 2287.0 | 2260.0 | 2496.1 | 2703.9 | -1.2% | 10.4% | 8.3% |
| Freight/insur | 101.2 | 119.8 | 157.1 | 142.0 | 125.0 | 135.0 | 144.5 | -12.0% | 8.0% | 7.0% |
| Goods (FOB) | 1900.8 | 1986.6 | 2353.9 | 2145.0 | 2135.0 | 2361.1 | 2559.4 | -0.5% | 10.6% | 8.4% |
| Equipment | 609.4 | 539.7 | 652.0 | 503.2 | 470.0 | 430.0 | 442.9 | -6.6% | -8.5% | 3.0% |
| Primary, semi-mfd. | 620.9 | 623.7 | 769.0 | 744.6 | 840.0 | 1020.0 | 1143.4 | 12.8% | 21.4% | 12.1% |
| Energy | 222.7 | 235.6 | 289.4 | 308.4 | 160.0 | 199.2 | 206.0 | -48.1% | 24.5% | 3.4% |
| Foodstuffs | 210.5 | 294.8 | 363.0 | 278.2 | 300.0 | 297.0 | 305.0 | 7.8% | -1.0% | 2.7% |
| Consumption goods | 338.5 | 412.6 | 437.6 | 452.6 | 490.0 | 550.0 | 606.6 | 8.3% | 12.2% | 10.3% |
| Services | 378.4 | 434.8 | 488.6 | 531.3 | 570.0 | 639.9 | 692.4 | 7.3% | 12.3% | 8.2% |
| Travel | 87.2 | 92.0 | 109.9 | 105.3 | 105.0 | 115.0 | 124.4 | -0.3% | 9.5% | 8.2% |
| Transp. & insur. | 200.7 | 217.9 | 230.1 | 230.4 | 235.0 | 255.0 | 275.9 | 2.0% | 8.5% | 8.2% |
| Government expense | 62.6 | 90.1 | 98.6 | 136.8 | 160.0 | 185.0 | 200.1 | 17.0% | 15.6% | 8.2% |
| Other | 27.9 | 34.8 | 50.0 | 58.8 | 70.0 | 85.0 | 91.9 | 19.0% | 21.4% | 8.2% |

## Table 1(d): Balance of Payments
## Dollar Equivalent -- Mission Estimates

| | 1982 | 1983 | 1984 | 1985 | Est. 1986 | Projected 1987 | Projected 1988 | Growth rates: '85-86 | Growth rates: '86-87 | Growth rates: '87-88 |
|---|---|---|---|---|---|---|---|---|---|---|
| Exchange Rate | 0.5907 | 0.6788 | 0.7768 | 0.8345 | 0.795 | 0.85 | 0.927 | | | |
| Trade Balance | -856.4 | -697.7 | -938.2 | -507.1 | -742.1 | -634.8 | -557.7 | 46.3% | -14.5% | -12.1% |
| Exports | 3002.0 | 2869.5 | 2721.0 | 2699.9 | 2660.4 | 2895.8 | 2950.1 | -1.5% | 8.8% | 1.9% |
| Goods | 1979.7 | 1860.0 | 1801.1 | 1729.2 | 1660.4 | 1844.1 | 1842.6 | -4.0% | 11.1% | -0.1% |
| Goods (ex. energy) | 1069.1 | 1028.3 | 1003.9 | 1005.9 | 1260.4 | 1415.2 | 1492.6 | 25.3% | 12.3% | 5.5% |
| Agriculture etc | 181.1 | 143.3 | 189.2 | 172.0 | 220.1 | 264.7 | 277.7 | 28.0% | 20.3% | 4.9% |
| Phosphates, chem | 349.1 | 352.8 | 314.1 | 321.0 | 358.5 | 358.8 | 369.1 | 11.7% | 0.1% | 2.9% |
| Energy | 910.6 | 831.8 | 797.2 | 723.3 | 400.0 | 428.9 | 350.0 | -44.7% | 7.2% | -18.4% |
| Textiles, leather | 400.5 | 398.2 | 346.8 | 372.2 | 496.9 | 576.5 | 616.9 | 33.5% | 16.0% | 7.0% |
| Other | 138.3 | 133.9 | 153.7 | 140.7 | 184.9 | 215.3 | 229.0 | 31.4% | 16.4% | 6.4% |
| Services | 1022.3 | 1009.4 | 919.9 | 970.8 | 1000.0 | 1051.7 | 1107.5 | 3.0% | 5.2% | 5.3% |
| Tourism | 575.6 | 573.4 | 460.2 | 498.5 | 490.6 | 498.7 | 524.5 | -1.6% | 1.7% | 5.2% |
| Transp. & insur. | 254.1 | 233.4 | 212.3 | 198.3 | 210.1 | 235.3 | 250.2 | 5.9% | 12.0% | 6.4% |
| Gas adjust. | 0.0 | 11.9 | 47.1 | 58.7 | 37.7 | 35.3 | 32.4 | -35.7% | -6.5% | -8.3% |
| Other | 192.7 | 190.8 | 200.3 | 215.2 | 261.6 | 282.4 | 300.4 | 21.6% | 7.9% | 6.4% |
| Imports | 3858.5 | 3567.2 | 3659.2 | 3207.1 | 3402.5 | 3530.6 | 3507.8 | 6.1% | 3.8% | -0.6% |
| Goods (CIF) | 3389.2 | 3103.1 | 3232.5 | 2740.6 | 2842.8 | 2936.6 | 2916.8 | 3.7% | 3.3% | -0.7% |
| Freight/insur | 171.3 | 176.5 | 202.2 | 170.2 | 157.2 | 158.8 | 155.8 | -7.6% | 1.0% | -1.9% |
| Goods (FOB) | 3217.9 | 2926.6 | 3030.3 | 2570.4 | 2685.5 | 2777.8 | 2761.0 | 4.5% | 3.4% | -0.6% |
| Equipment | 1031.7 | 795.1 | 839.3 | 603.0 | 591.2 | 505.8 | 477.7 | -2.0% | -14.4% | -5.6% |
| Primary, semi-mfd. | 1051.1 | 918.8 | 990.0 | 892.3 | 1056.6 | 1200.0 | 1233.4 | 18.4% | 13.6% | 2.8% |
| Energy | 377.0 | 347.1 | 372.6 | 369.6 | 201.3 | 234.4 | 222.2 | -45.5% | 16.4% | -5.2% |
| Foodstuffs | 356.4 | 434.3 | 467.3 | 333.4 | 377.4 | 349.4 | 329.0 | 13.2% | -7.4% | -5.8% |
| Consumption goods | 573.0 | 607.8 | 563.3 | 542.4 | 616.4 | 647.0 | 654.4 | 13.6% | 5.0% | 1.1% |
| Services | 640.6 | 640.5 | 629.0 | 636.7 | 717.0 | 752.8 | 746.9 | 12.6% | 5.0% | -0.8% |
| Travel | 147.6 | 135.5 | 141.5 | 126.2 | 132.1 | 135.3 | 134.2 | 4.7% | 2.4% | -0.8% |
| Transp. & insur. | 339.8 | 321.0 | 296.2 | 276.1 | 295.6 | 300.0 | 297.6 | 7.1% | 1.5% | -0.8% |
| Government expense | 106.0 | 132.7 | 126.9 | 163.9 | 201.3 | 217.6 | 215.9 | 22.8% | 8.1% | -0.8% |
| Other | 47.2 | 51.3 | 64.4 | 70.5 | 88.1 | 100.0 | 99.2 | 25.0% | 13.5% | -0.8% |

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Table 1 (e): Balance of Payments
(dinar million)

| | 1982 | 1983 | 1984 | 1985 | Est. 1986 | Projected 1987 | Projected 1988 |
|---|---|---|---|---|---|---|---|
| I. Trade Balance | -505.9 | -473.6 | -728.8 | -423.2 | -590.0 | -539.6 | -517.0 |
| Transfers: | +52.6 | +64.1 | +48.8 | -577 | -60.0 | -80.0 | -95.0 |
| Worker Transfers | 219.6 | 243.8 | 245.9 | 225.8 | 210.0 | 220.0 | 230.0 |
| Interest on Debt. | -120.5 | -141.3 | -188.9 | -214.1 | -230.0 | -280.0 | -325.0 |
| Other (Net) | -46.5 | -38.4 | -8.2 | -69.4 | -40.0 | -20.0 | 0.0 |
| II. Current Account: | -453.3 | -409.5 | -680.0 | -489.9 | -650.0 | -619.6 | -612.0 |
| III. Capital Account: | 469.3 | 399.5 | 563.7 | 389.9 | 460.0 | 700.0 | 600.0 |
| Grants | 11.2 | 17.2 | 22.2 | 21.0 | 30.0 | 20.0 | 20.0 |
| Direct investment | 237.6 | 151.9 | 160.0 | 116.0 | 130.0 | 120.0 | 150.0 |
| MT + LT Loans | 371.2 | 470.0 | 545.2 | 545.0 | 685.0 | 1060.0 | 950.0 |
| Loan Amortization | -185.1 | -235.5 | -290.3 | -333.0 | -385.0 | -500.0 | -520.0 |
| Other | -34.4 | 4.1 | -126.6 | -40.9 | -- | -- | -- |
| IV. Valuation Adjustment: | -5.2 | 13.1 | 50.1 | 49.1 | 0.0 | 0.0 | 0.0 |
| V. Overall Surplus: | 10.8 | 3.1 | -66.2 | -50.9 | 190.0 | +80.4 | -12.0 |
| IMF | -- | -- | -- | -- | +131.0 | +38.6 | +26.4 |
| Changes in Reserves (increase -) | -10.8 | -3.1 | 66.2 | 50.9 | 59.0 | 41.8 | -38.4 |
| VI. Cumulative Change in Reserves (increase -) | -10.8 | -13.9 | 52.3 | 103.2 | 162.2 | 204.0 | 165.6 |

Table 2. Tunisia: Summary of Adjustment Program, July 1986-December 1987

I. No change policy scenario for 1986

A. Overall consolidated budget deficit: 6.6 percent of GNP
B. Current account balance of payments deficit: 9.7 percent of GNP
C. Gross official reserves (end-June): SDR 66 million (10 days of imports)

II. Adjustment program scenario

A. Objectives

| | 1986 | 1987 |
|---|---|---|
| 1. Annual growth of real GDP | 1 percent | 3.5 percent |
| 2. External current account deficit (% of GNP) | 9.0 | 7.4 |
| 3. Gross official reserves (end-period; in months of imports) | 0.8 | 1.5 |
| 4. External debt (incl. IMF; % of GNP) | 55.2 | 63.4 |
| 5. External debt service (% of current receipts) | 25.3 | 27.2 |

B. Measures

| Measures | Status/Calendar of Implementation |
|---|---|
| 1. Price liberalization | |
| i. Services | Mostly free of administrative controls. |
| ii. Agriculture | |
| a. Subsidized consumer goods | Price increases in August and during the last quarter of 1986. Further annual reduction of at least 5 percent in the annual subsidy bill. Number of products to be subsidized to be reduced. |
| b. Subsidized inputs | To be eliminated completely in accordance with the timetable agreed with the World Bank. |
| c. Producer prices | Raised by 6-16 percent in August in agreement with the World Bank to align them with international levels by 1988. |
| iii. Manufactured goods | Cumulative 65 percent of production to be liberalized by 1988. |
| Approximately 25 percent | Liberalized in September 1986. |
| " 35 percent | To be liberalized in January 1987. |
| " 45 percent | To be liberalized in July 1987. |
| " 55 percent | To be liberalized in January 1988. |
| " 65 percent | To be liberalized in July 1988. |
| 2. Investment liberalization and state enterprises | |
| i. Liberalization of investment controls on projects requesting no special advantages from the Government. | |
| ii. Revised investment code involving: | |
| a. Focusing fiscal advantages for new investments on specific activities on the basis of specific criteria | To be introduced in January 1987 after discussions with the World Bank. |
| b. No distinction in the granting of advantages as between new investments and investments for replacement or extension of existing capacity | |
| iii. Public enterprises | |
| a. Limit state control of existing enterprises to approximately 160 | Appropriate legislation already passed. Specific timetable to be finalized before end-1986. |
| b. Gradual sale to the private sector of the Government's share in those enterprises in which the Government has presently up to 34 percent of equity participation | |
| c. Improve the financial viability of those enterprises that are to remain in the public sector | |

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Table 2. (continued). Tunisia: Summary of Adjustment Program, July 1986-December 1987

| | |
|---|---|
| 3. Import liberalization | |
| i. All imports (with a small number of exceptions) to be liberalized by 1991, with the following specified timetable | Policy announced. |
| a. Raw materials and semifinished products for industries exporting at least 25 percent of their turnover, and spare parts for agriculture and other specified sectors | Implemented in August 1986. |
| b. Investment goods for newly approved projects and raw materials for medicines (a. and b. will bring the proportion of imports on the free list to 31 percent from the present 18 percent). | September 1986 |
| c. All other raw materials and spare parts; semifinished products for industries exporting at least 15 percent of their turnover and for industries reasonably well integrated | January 1987. |
| d. Investment goods for projects judged as of "intermediate" priority by the Investment Agency. | Early 1987 after the promulgation of the revised Investment Code. |
| e. All remaining imports of investment goods, and semifinished products with the exception of imports by weakly integrated industries (c. through e. will raise the proportion of imports on the free list to 60 percent.) | January 1988. |
| ii. Tariff reform | |
| Reform of import tariff to reduce effective protection to a reasonably uniform rate of about 25 percent by 1991. During the program period: | Policy announced. |
| a. Reduce maximum import duties to 50 percent. | |
| b. Reduce by 6 percent present rates between 26-55 percent (with minimum of 25 percent). | January 1987. |
| c. Set minimum tariff of 15 percent. | |
| d. Additional specified changes | January 1988. |
| 4. Exchange rate and external debt | |
| i. Depreciate the nominal effective exchange rate of the dinar by 22 percent (in foreign currency terms) compared with the end-1985 level | Implemented by end-August 1986. |
| ii. Maintain the real effective value of the exchange rate at its post-August devaluation level through, if necessary, periodic adjustments of the nominal rate. Additional corrections if balance of payments position requires. | Being implemented. |
| iii. Limits on nonconcessional external debt of 1-12 years maturity, with sublimits on that in the maturity range of 1-5 years. | Established for the program period through 1987. |
| iv. Limit on short-term debt (of maturity up to 1 year) excluding import-related credits to present level. | |

Table 2 (concluded). Tunisia: Summary of Adjustment Program, July 1986-December 1987

| | |
|---|---|
| **5. Public finance** | |
| i. Limit 1986 consolidated budget deficit to D 429 million (6 percent of GNP) | Appropriate supplementary measures already announced. |
| ii. Limit 1987 consolidated budget deficit to 3.9 percent of GNP (D 318 million) | The draft 1987 budget consistent with this objective will be discussed with the staff in November 1986. The budget for 1987 will also be one of the subjects of discussion during the first program review. |
| iii. Cancellation of all outstanding but unused budgetary authorizations in respect of investment expenditures. | January 1987. |
| iv. Introduction of a VAT with specified timetable of various intermediate steps. | January 1988 for the VAT; will be both subjects of discussion under the second review of the program. |
| v. Establishment of a timetable for unification of income and profit taxes. | |
| **6. Credit and monetary policies** | |
| i. Limit domestic credit to D 4,348 million at end-1986 and to D 4,714 million at end-1987 | Performance criteria with intermediate quarterly limits also as performance criteria. |
| ii. Limit net bank credit to the Government to D 635 million at end-1986 and to D 684 million at end-1987 | |
| iii. Liberalize interest rates, with the exception of preferential lending rates and savings deposit rates (which will be related to rates prevailing in the money market) | To be introduced in January 1987. |
| iv. Channel most of the intervention of the Central Bank through the money market in relation to the credit and monetary targets | To be introduced in January 1987. |

7. Monitoring of the program

i. Quarterly and annual performance criteria relating to:
   a. Domestic credit
   b. Net bank credit to Government
   c. Limits on nonconcessional external debt of up to 1 year original maturity (excluding import-related credits) and on the contracting or guaranteeing by the Government of external debt with 1-12 years' original maturity, with a subceiling on that of 1-5 years' original maturity.
   d. External payments arrears (no accumulation)
   e. Customary clauses with respect to restrictions

ii. Quarterly and annual indicative targets relating to:
   a. Consolidated budget deficit (triggering consultation with Management)
   b. Total revenue and grants
   c. Total expenditure (excluding amortization), including net lending
   d. Net foreign assets of the monetary system (triggering consultation with Management)

iii. Reviews with the Fund to be completed:
   a. Before end-February 1987
   b. Before end-September 1987
   c. Before end-January 1988

## Table 3 : Price Liberalization Timetable

**September 1, 1986**

- Building materials except lime, cement, and sanitary fixtures
- Textiles, except underwear and jute products
- Mechanical and electrical industries:
  - Automobile parts, including batteries
  - Hardware
  - TV antennas and accessories
- Preserved and semipreserved sardines
- Miscellaneous:
  - Plastic products
  - Graphics
  - Watches and watch parts
  - Cabinets
  - Cork products
  - Chandeliers
  - Footwear and accessories
  - Tanned goods
  - Paper and carton packaging
  - Printing supplies
  - Notions

**January 2, 1987**

- Mechanical and electrical industries:
  - Electric switches and connectors
  - Cable
  - Refrigerators and stoves
  - Boilers
- Carpentry supplies
- Glue
- Ink
- Liquid detergents
- Tires and rubber products

**July 1, 1987**

- Soap, except laundry soap
- Agricultural products and foods:
  - Preserved and semipreserved tuna
  - Preserved and semipreserved tomatoes
  - Preserved and semipreserved harissa
  - Yogurt
  - Cheeses, except spreads
  - Beverages
- Furniture
- Fertilizers:
  - Phosphoric acid
  - Hyperphosphate
  - SPS, SPT
  - Dicalcium phosphate
  - MAP, TPP
  - Compound fertili

Table 3.: Price Liberalization Timetable (concluded)

January 2, 1988

Mechanical and electrical industries:
- Loudspeakers and accessories
- Plumbing fixtures
- Bicycles and mopeds
- Batteries, etc.

Animal feed

Parachemicals:
- Paints and varnishes
- Laundry soap
- Detergents
- Essential oils
- Linseed oil
- Perfume
- Insecticides and pesticides

July 1, 1988

Household articles of stainless steel and aluminum
Copper products
Aluminum cabinets
Electric motors and transformers
Tomato paste
Preserved and semipreserved vegetables and fruits

## Table 4A.
### Individual Food Consumption in Different Per Capita Expenditure Groups (Annual Figures in Kilograms for 1980)

| Product | Less Than D70 | D70 to D100 | D100 to D130 | D130 to D200 | D200 to D300 | D300 to D500 $ | D500 over |
|---|---|---|---|---|---|---|---|
| Cereals | 189.8 | 201.1 | 199.0 | 195.2 | 192.3 | 188.0 | 184.7 |
| Edible Oils | 11.1 | 13.3 | 15.3 | 15.3 | 17.0 | 18.2 | 19.4 |
| Sugar | 9.2 | 11.5 | 13.0 | 14.0 | 16.0 | 17.0 | 17.7 |
| Milk Products | 17.2 | 39.3 | 37.7 | 51.3 | 69.0 | 89.1 | 125.3 |
| Meats | 2.3 | 5.4 | 8.1 | 14.6 | 20.5 | 27.5 | 38.5 |
| Tea | 1.0 | 1.1 | 1.3 | 1.3 | 1.4 | 1.3 | 1.4 |

Source: 1980 Household Consumption Survey

## Table 4B.
### Distribution of the Tunisian Population According to Per Capita Expenditure Categories

| Annual Per Capita Expenditures */ | Percent of Total Population | Cumulative Percentage |
|---|---|---|
| Less than D60 | 7.5 | 7.5 |
| 60 to 120 | 21.8 | 29.3 |
| 120 to 300 | 26.6 | 55.9 |
| 200 to 300 | 19.8 | 75.7 |
| 300 to 500 | 15.4 | 91.1 |
| over D 500 | 8.9 | 100.0 |

Source: 1980 Household Consumption Survey

*/ In dinars

TABLE 5 IMF Performance Criteria and Indicative Targets

The Government will monitor the execution of the program by reference to quarterly performance criteria and indicative targets as show in the appended table. The performance criteria will condition purchases from the Fund under the stand-by arrangement, while nonobservance of the indicative targets for the budget deficit and net foreign assets of the monetary system will require consultations with the Managing Director of the Fund with a view to ascertaining the causes and agreeing on any necessary supplementary measures.

In addition to the performance criteria mentioned above, three reviews with the Fund will be held and completed before end-February 1987, end-September 1987 (discussions for which are expected to be conducted at the time of the 1987 Article IV consultation mission) and end-January 1988 and will also constitute performance criteria. The first review will concentrate on the budget for 1987, the exchange rate, progress with respect to import and price liberalization, efforts to secure financing of the external gap for 1987, the establishment of the March and June performance criteria for domestic credit and net credit to the Government, and the indicative targets, including those for September 1987. The second review will focus primarily on exchange rate policy; progress on tax reform, in particular to assure introduction of the VAT at the beginning of 1988; and the establishment of performance criteria for domestic credit and net credit to the Government for September 1987 and the indicative targets for December 1987 and March 1988. The third review will cover the overall economic and financial policy stance for 1988 and the establishment of performance criteria for March 1988 for domestic credit, net credit to the Government, and external debt.

Table 5: Performance Criteria and Indicative Targets 1/

| | 1986 | | 1987 | | |
|---|---|---|---|---|---|
| | Sept. | Dec. | March | June | Dec. |
| **A. Performance criteria** | | | (In millions of dinars) | | |
| 1. Domestic credit | 4,028 2/ | 4,348 | 4,334 3/ | 4,502 3/ | 4,714 |
| 2. Net credit to the Government | 508 2/ | 635 | 606 3/ | 666 3/ | 684 |
| | | | (In millions of SDRs) | | |
| 3. External public debt 4/ | | | | | |
| 3.a 0-1 year (amount outstanding, excluding import-related credit) | 120 2/ | 120 | 120 | 120 | 120 |
| 3.b New nonconcessional external borrowing (cumulative) | | | | | |
| i. 1-5 years | ... | 15 | 65 | 65 | 65 |
| ii. 1-12 years | ... | 100 | 450 | 450 | 450 |
| 4. External payments arrears (outstanding) | -- | -- | -- | -- | -- |
| **B. Indicative targets 5/** | | | (In millions of dinars) | | |
| 1. Consolidated budget deficit 6/ | ... | 429 | ... 7/ | ... 7/ | 318 |
| 2. Total revenue and grants 6/ | ... | 2,458 | ... 7/ | ... 7/ | ... 7/ |
| 3. Total expenditure and net lending (excluding amortization) 6/ | ... | 2,886 | ... 7/ | ... 7/ | ... 7/ |
| | | | (In millions of SDRs) | | |
| 4. Net foreign assets of the monetary system | -29 | 10 | -147 | -157 | 109 |

1/ The performance criteria and indicative targets for September 1987 and March 1988 will be set during the reviews mentioned in the Memorandum.
2/ Not a performance criterion.
3/ Indicative targets to be reviewed and made into performance criteria during the reviews mentioned in the Memorandum. The ceilings on net credit to the Government will be reduced in accordance with paragraph 34 of the Memorandum.
4/ Contracted or guaranteed by the Government.
5/ The specified targets for 1987 will be revised, if necessary, during the first program review.
6/ Cumulative level for the fi
7/ Targets to be set during th ... iew.

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## Table 6

### Growth in Money Supply and Nominal GDP
### 1984-1986

| | Million Dinars | | Percent (Annualized) | | Nominal |
|---|---|---|---|---|---|
| | M1 | M2 | M1 | M2 | GDP |
| Dec. 1983 | 1693 | 1431 | | | |
| Dec. 1984 | 1765 | 2715 | +6,8 | +11,7 | +12,7 |
| Dec. 1985 | 1987 | 3091 | +12,6 | +13,8 | +11,0 |
| June 1986 | 1795 | 2972 | -18,4 | -3,8 | NA |
| Sept. 1986 | 1805 | 2976 | +2,2 | -1,8 | NA |
| Dec. 1986 | NA | NA | NA | NA | +2,9(Est |

Source: Banque Centrale de Tunisie, *Statistique Financières* No. 78 (Dec. 1986) Table No. 2. GDP estimate from *Budget Economique 1987*.

## Table 7

## GOT Planned Foreign Exchange shortfall Financing
(D million)

| | 1985 | 1986 | 1987 |
|---|---|---|---|
| 1. Grants | 31 | 35 | 30 |
| 2. Directs investments | 153 | 135 | 125 |
| 3. LT Loans: | 290 | 320 | 740 |
| (Existing credit lines (bal 1100)) | | | |
| (1986: IBRD ($150M), France, Italy | | | (290) |
| (1987: IBRD Ind. & Trade SAL ($150M)) | | | (160) |
| SHORTFALL | | | (150) |
| | | | (140) |
| 4. MT Loans: | 253 | 365 | 330 |
| (Existing credit lines ( )) | | | |
| SHORTFALL | | | (80) |
| | | | (250)* |
| 5. IMF Facilities | --- | 150** | 45** |
| | 727 | 1005 | 1270 |

*/GOT wants Commercial (D 150M), Development Bank (D 100M).

**/Does not tally w/ IMF code: CCF + SA = SDR 149M in '86, 41 Min '87.

Table 8

1986: Other Donor Assistance ($ M) 1/

| Donor: | Period: | Amount: | Cum: | Terms: |
|---|---|---|---|---|
| F.R. Germany | 1986 | 46.4 | DM | Loan |
| Italy | '85-'87 | 150.0 | $ | Grant |
| | | 75.0 | $ | Soft Loan |
| | | 75.0 | $ | Loan |
| | 1986 | 100.0 | $ | L/C Commodity AID, Ag Sector Soft |
| France | 1986 | 87.6 | FF | Project Assistance - 40% 2.5% LT 60% OECD rate MT |
| | | 31.1 | FF | B.O.P. Assistance 50% 2.5% LT 50% OECD rate MT |
| | | 65.5 | FF | Cereals credits |
| | | 2.5 | FF | Wheat Gift |
| Belgium | 1986 | 23.1 | TD | Tied, 2% LT |
| Holland | | 8.6 | TD | Grant |
| Canada | | 5.0 | $ | Wheat Loan |
| | | 4.5 | $ | Grant: scholarships |
| | | 440.59 | | Loan: LT & unknown |
| | | 68.11 | | Loan: MT |
| | | 165.6 | | Grant |

| | | | |
|---|---|---|---|
| * Excluding EEC | 1981-1986 | $158.1M | (27.3 LT 1%, 42.1 grant, 88.8 8.875%) in Ecu |
| France | 1986 $32.7M to unblock French assets in FF. | | |

1/ A more complete accounting of other donor assistance available to the GOT during the Structural Adjustment period was started by the IBRD at the February 19 Donor's Meeting in Paris. It should be available shortly and will include exposures of the Arab funds and banks as well as the bilateral donors.

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## Table 8 (concluded)

**Tunisia:**

1985: Principal lenders

| | | | |
|---|---|---|---|
| IBRD | $ 168.7M | (42%) | |
| Italy | 52.5M | (13%) | |
| France | 44.4M | (11%) | (ivel FIDA, CCE) |
| FRGermany | 30.1M | (8%) | (KFW) |
| Algeria | 20.0M | (5%) | |
| BEI | 18.5M | (5%) | |
| ADB | 18.5M | (5%) | |

Principal bilateral donors:

| | | Bilateral (%) | Total (%) |
|---|---|---|---|
| France | 12.2 | 33 | 20 |
| USA | 10.5 | 28 | 17 |
| Belgium | 3.8 | 10 | 6 |
| Italy | 3.4 | 9 | 6 |
| FRGermany | 2.7 | 7 | 5 |
| Canada | 1.5 | 4 | 3 |
| Japon | 1.4 | 4 | 2 |
| Other | 1.2 | 3 | |

Source: UNDP

Table 9 Tunisia: Expenditure of the Price Stabilization Fund, 1986 1/

| | Volume | Unit cost in dinars | Unit subsidy in dinars | Unit subsidy as a share of cost in percent | Total subsidy in millions of dinars |
|---|---|---|---|---|---|
| **Cereals** | | | | | 123.2 |
| Soft wheat (in tons) | 710,000 | 134.47 | 61.97 | 46.1 | 44.0 |
| Durum wheat (" ") | 630,000 | 168.95 | 80.95 | 47.9 | 51.0 |
| Bread processing (" ") | 430,000 | 201.93 | 59.07 | 29.3 2/ | 25.4 |
| Pasta processing (" ") | 100,000 | 253.00 3/ | 28.00 3/ | 11.1 3/ | 2.8 3/ |
| **Vegetable oil** | | | | | 28.2 |
| Edible oil mix (" ") | 100,000 | 520.0 | 220.0 4/ | 42.3 | 22.0 4/ |
| Acid oil (for soap) (" ") | 21,000 | 430.0 | 295.0 4/ | 68.6 | 6.2 4/ |
| **Milk (1000 liters)** | 146,800 | 353.0 | 78.0 4/ | 22.1 | 11.5 4/ |
| **Sugar (in tons)** | 168,000 | 332.0 | 92.0 4/ | 27.7 | 15.5 4/ |
| **Animal feed** | | | | | 12.6 |
| Barley (" ") | 210,000 | 115.57 | 14.29 | 12.4 | 3.0 |
| Maize (" ") | 250,000 | 141.60 | 17.60 | 12.3 | 4.4 |
| Soybean meal (" ") | 120,000 | 243,33 | 43,33 | 17.8 | 5.2 |
| **Fertilizer** | | | | | 17.9 |
| Ammonite (" ") | 120,000 | 142,46 | 65.0 | 45.6 | 7.8 |
| SSP (" ") | 35,000 | 78.77 | 40.0 | 50.8 | 1.4 |
| TSP (" ") | 90,000 | 149.73 | 81.0 | 54.1 | 7.3 |
| DAP (" ") | 10,000 | 242.69 | 140.0 | 57.7 | 1.4 |
| **Miscellaneous** | ... | ... | ... | ... | 14.5 5/ |
| **Total** | | | | | 223.4 6/ |

Sources: Data provided by the Tunisian authorities (Ministry of Planning and Finance); and staff estimates.

1/ Including the effect of the depreciation of the dinar.
2/ Including the subsidy on soft wheat, unit subsidy on bread amounts to about 43 percent.
3/ The latest increase in prices (August 1986) resulted in the elimination of the subsidy on pasta processing.
4/ Excluding the effect of the price increases scheduled for the last quarter of 1986.
5/ Of which about D 5 million for school paper and D 5 million for the repayment of a treasury loan.
6/ D 218.4 million if we exclude the repayment of a treasury loan.

Table 10  Tunisia:  Consolidated Financial Operations of the Central Government, 1982-87 1/

| | 1982 | 1983 | 1984 | 1985 | 1986 Budget | 1986 Supplementary budget | 1987 Preliminary projections 2/ |
|---|---|---|---|---|---|---|---|
| | (In millions of dinars) | | | | | | |
| Revenue and grants | 1,658.3 | 1,862.7 | 2,285.4 | 2,450.9 | 2,618.9 | 2,457.5 | 2,643.5 |
| Tax revenue | 1,245.2 | 1,479.6 | 1,652.3 | 1,832.2 | 1,987.3 | 1,860.2 | 1,942.5 |
| Other revenue and grants | 413.1 | 383.1 | 633.1 | 618.7 | 631.6 | 597.3 | 651.0 |
| Nonpetroleum related | (83.5) | (111.0) | (284.7) | (239.0) | (229.6) | (265.3) | (301.0) |
| Petroleum | (329.6) | (272.1) | (348.4) | (379.7) | (402.0) | (332.0) | (350.0) |
| New measures | | | | | | | 50.0 |
| Total expenditure and net lending | 1,919.1 | 2,311.2 | 2,655.2 | 2,764.3 | 2,856.5 | 2,886.0 | 2,961.5 |
| Current | 1,289.8 | 1,551.9 | 1,746.8 | 1,895.1 | 2,048.6 | 2,009.4 | ... |
| Wages and salaries | (481.5) | (573.6) | (633.2) | (691.4) | (745.3) | (740.8) | (...) |
| Other goods and services | (203.0) | (308.9) | (232.8) | (215.4) | (224.0) | (219.5) | (...) |
| Interest payments | (104.0) | (130.0) | (168.5) | (196.0) | (229.5) | (239.8) | (...) |
| Subsidies, transfers, and other | (501.3) | (539.4) | (712.3) | (792.3) | (849.8) | (809.3) | (...) |
| Capital | 432.1 | 516.5 | 586.3 | 683.0 | 664.2 | 624.2 | ... |
| Direct investment | (207.4) | (247.4) | (318.7) | (314.3) | (357.2) | (337.2) | (...) |
| Capital transfers and equity | (224.7) | (269.1) | (267.6) | (368.7) | (307.0) | (287.0) | (...) |
| Net lending | 197.2 | 242.8 | 322.1 | 186.2 | 143.7 | 252.4 | ... |
| Deficit | -260.8 | -448.5 | -369.8 | -313.4 | -237.6 | -428.5 | -318.0 |
| Financing | 260.8 | 448.5 | 369.8 | 313.4 | 237.6 | 428.5 | 318.0 |
| Foreign | 196.2 | 284.1 | 207.0 | 205.2 | 77.8 | 281.9 | 223.0 |
| Drawings | (287.2) | (415.0) | (377.4) | (410.9) | (344.4) | (535.4) | (539.0) |
| Amortization | (-91.0) | (-130.9) | (-170.4) | (-205.7) | (-266.6) | (-253.5) | (-316.0) |
| Domestic | 64.6 | 164.4 | 162.8 | 108.2 | 159.8 | 146.6 | 95.0 |
| Banks | (51.0) | (47.0) | (97.0) | (103.0) | (105.1) | (81.0) | (49.0) |
| Other | (13.6) | (117.4) | (65.8) | (5.2) | (54.7) | (65.6) | (46.0) |
| Memorandum items: | (In percent of GNP) | | | | | | |
| Revenue and grants | 34.3 | 33.6 | 36.4 | 36.0 | 36.4 | 34.2 | 32.7 |
| Expenditure | 39.6 | 41.6 | 42.3 | 40.6 | 39.7 | 40.1 | ~~36.7~~ |
| Deficit | -5.4 | -8.1 | -5.9 | -4.6 | -3.3 | -6.0 | -3.9 |

Sources:  Data provided by the Tunisian authorities; and staff projections.

1/ Includes current and capital budgets, Special Funds, Fonds de Concours, extrabudgetary operations financed abroad, net treasury operations, and social security funds.
2/ Staff projections.

## Table 11 Tunisia: Monetary Survey, 1984–87

(In millions of dinars; end of period)

| | 1984 | 1985 | 1986 June | 1986 Sept. | 1986 Dec. | 1987 March | 1987 June | 1987 Dec. |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Projections | | |
| **Monetary system** | | | | | | | | |
| Net foreign assets | 289 | 201 | -51 | -30 | 11 | -150 | -170 | 120 |
| Central Bank | (285) | (209) | (-51) | (-30) | (11) | (-150) | (-170) | (120) |
| Deposit money banks | (4) | (-8) | (--) | (--) | (--) | (--) | (--) | (--) |
| Domestic credit | 3,359 | 3,935 | 4,036 | 4,028 | 4,348 | 4,334 | 4,502 | 4,714 |
| Net credit to the Govt. | (451) | (554) | (598) | (508) | (635) | (606) | (666) | (684) |
| Credit to the economy | (2,908) | (3,381) | (3,438) | (3,520) | (3,713) | (3,728) | (3,836) | (4,030) |
| Money plus quasi-money | 2,715 | 3,091 | 2,976 | 3,032 | 3,266 | 3,161 | 3,222 | 3,560 |
| Of which: | | | | | | | | |
| Deposits of CCP | (82) | (84) | (84) | (84) | (84) | (84) | (84) | (84) |
| Other items (net) | 933 | 1,045 | 1,009 | 966 | 1,093 | 1,023 | 1,110 | 1,274 |
| **Central Bank** | | | | | | | | |
| Net foreign assets | 285 | 209 | -51 | -30 | 11 | -150 | -170 | 120 |
| Net credit to the Govt. | -36 | -31 | 32 | 32 | 32 | 32 | 32 | 32 |
| Credit to the economy | 118 | 140 | 155 | 165 | 170 | 175 | 180 | 155 |
| Claims on the deposit money banks | 688 | 811 | 999 | 904 | 1,032 | 1,097 | 1,211 | 1,148 |
| Currency in circulation | 573 | 633 | 627 | 606 | 653 | 632 | 644 | 712 |
| Private sector deposits | 1 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| Other items (net) | 481 | 489 | 501 | 458 | 585 | 513 | 602 | 756 |
| **Deposit money banks** | | | | | | | | |
| Net foreign assets | 4 | -8 | — | -- | -- | — | -- | — |
| Net credit to the Govt. | 405 | 501 | 482 | 392 | 519 | 490 | 550 | 563 |
| Credit to the economy | 2,790 | 3,241 | 3,283 | 3,355 | 3,543 | 3,553 | 3,656 | 3,845 |
| Monetary and quasi-monetary deposits | 2,059 | 2,367 | 2,258 | 2,335 | 2,522 | 2,438 | 2,437 | 2,757 |
| Credit from Central Bank | 688 | 811 | 999 | 904 | 1,032 | 1,097 | 1,211 | 1,148 |
| Other items (net) | 452 | 556 | 508 | 508 | 508 | 508 | 508 | 508 |

Sources: Central Bank of Tunisia, Statistiques Financières; and data provided by the Tunisian authorities.

Table 12 Tunisia: Real Effective Exchange Rate and Related Series

(Indices: 1980 = 100)

| | Real Effective Exchange Rate 1/ 2/ | Nominal Effective Exchange Rate 1/ | Relative Consumer Prices (Local Currencies) | Exchange Rate in Terms of U.S. Dollars 1/ | Consumer Price Index (Seasonally Adjusted) | Consumer Price Index (Not Seasonally Adjusted) |
|---|---|---|---|---|---|---|
| Quarterly | | | | | | |
| 1982 | | | | | | |
| I | 98.7 | 102.5 | 96.3 | 75.3 | 117.3 | 118.7 |
| II | 97.0 | 100.1 | 96.9 | 70.8 | 121.3 | 120.2 |
| III | 97.0 | 98.5 | 98.4 | 65.1 | 126.3 | 125.5 |
| IV | 98.9 | 99.5 | 99.3 | 64.1 | 130.3 | 131.0 |
| 1983 | | | | | | |
| I | 97.0 | 99.0 | 97.9 | 64.2 | 131.4 | 132.7 |
| II | 96.0 | 98.5 | 97.5 | 60.6 | 133.9 | 132.6 |
| III | 96.1 | 99.6 | 96.5 | 57.7 | 135.9 | 135.2 |
| IV | 96.6 | 100.6 | 95.9 | 56.7 | 138.3 | 139.1 |
| 1984 | | | | | | |
| I | 96.7 | 100.8 | 95.9 | 55.6 | 141.3 | 142.5 |
| II | 97.2 | 100.5 | 96.7 | 54.9 | 145.1 | 143.8 |
| III | 96.6 | 99.8 | 96.8 | 50.7 | 148.2 | 147.6 |
| IV | 95.9 | 99.5 | 96.5 | 48.1 | 150.6 | 151.4 |
| 1985 | | | | | | |
| I | 96.3 | 99.8 | 96.5 | 45.2 | 153.8 | 155.0 |
| II | 96.3 | 100.2 | 96.1 | 47.2 | 156.4 | 155.0 |
| III | 98.4 | 101.4 | 97.1 | 50.5 | 160.3 | 159.8 |
| IV | 93.0 | 96.6 | 96.2 | 51.7 | 161.5 | 162.3 |
| 1986 | | | | | | |
| I | 92.3 | 95.9 | 96.2 | 55.2 | 163.3 | 164.4 |
| II | 88.1 | 90.8 | 97.1 | 53.5 | 166.2 | 164.7 |
| Monthly | | | | | | |
| 1985 | | | | | | |
| Nov. 3/ | 92.9 | 96.4 | 96.3 | 51.5 | 161.7 | 162.1 |
| Dec. | 92.8 | 96.9 | 95.8 | 52.7 | 161.9 | 163.6 |
| 1986 | | | | | | |
| Jan. | 92.7 | 96.9 | 95.7 | 53.9 | 162.2 | 164.1 |
| Feb. | 92.5 | 96.2 | 96.1 | 55.6 | 163.1 | 164.4 |
| March | 91.6 | 94.7 | 96.9 | 56.1 | 164.5 | [illegible] |
| April | 90.2 | 92.8 | 97.1 | 54.3 | 165.5 | 164.3 |
| May | 88.4 | 91.0 | 97.1 | 54.0 | 165.2 | 164.4 |
| June | 85.7 | 88.4 | 96.9 | 52.2 | 166.6 | 164.7 |
| July | 82.7 | 85.9 | 95.3 | 52.1 | 165.7 | 164.3 |
| August | 77.2 | 79.8 | 96.7 | 49.3 | 167.0 | 167.0 |
| Percentage change | | | | | | |
| Nov. 1985–Aug. 1986 | -16.9 | -17.3 | 0.4 | -3.1 | 3.3 | |

Source: Information Notice System.

1/ Increases mean appreciation.
2/ Using seasonally adjusted price indices.
3/ Date of latest consideration by Executive Board.

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ATTACHE REPORT
Continuation Sheet

TABLE 13

NOT OFFICIAL USDA DATA

PAGE NO:

From (Post): TUNIS, TUNISIA

Report Number: TS 6012

Code Number: [illegible]/0400

Table 13: TUNISIA - Imports of Goods and Services

| | 1984 | 1985 | 1986 |
|---|---|---|---|
| | ---- million dinars ----- | | |
| Equipment | 652.0 | 530 | 500 |
| Raw materials & semi Mfgrs | 768.9 | 810 | 900 |
| Energy | 236.8 | 310 | 310 |
| Food products | 336.6 | 280 | 290 |
| Non-food products for consumption | 437.6 | 420 | 440 |
| Total goods (CIF) | 2481.9 | 2350 | 2440 |
| Freight and insurance | (129.0) | (120) | (130) |
| Total goods (FOB) | 2353.9 | 2230 | 2310 |
| Tourism | 109.9 | 130 | 120 |
| transport and insurance | 230.1 | 240 | 255 |
| Governmental expenses | 93.6 | 125 | 125 |
| other expenses | 50.0 | 65 | 70 |
| Total services | 483.6 | 550 | 580 |
| Total goods and services | 2842.5 | 2780 | 2890 |
| Imports of goods & services, excluding Energy | 2555.7 | 2470 | 2580 |

Source: 1986 Economic Budget

| PAYS & CHAPITRE DOUANIER | IMPORTATION POIDS NET | IMPORTATION VALEUR | EXPORTATION POIDS NET | EXPORTATION VALEUR |
|---|---|---|---|---|
| AGES EN PIERRES CIMENT ETC | 530 | 6998 | | |
| IE ET OUVRAGES EN VERRE | 39 | 574 | | |
| TES FERS ET ACIERS | 50780 | 34740 | | |
| IRE | 1 | 4 | | |
| IEL | 3500 | 18593 | | |
| INIUM | 298819 | 298424 | | |
| ILLAGE EN METAUX COMMUNS | 374 | 4938 | | |
| AGES DIVERS METAUX COMMUNS | 1333 | 2853 | | |
| AREIL MACHINE ENGIN MECANIQUE | 54332 | 917446 | | |
| INES APPAREILS ELECTRIQUES | 6406 | 85623 | | |
| RIEL DE CHEMIN DE FER | 1563 | 50664 | | |
| S CYCLES TRACTEURS | 1107 | 9449 | 956 | 7660 |
| IQUE APPAREILS SCIENTIFIQUES | 403 | 32676 | 1000 | 4000 |
| RUMENTS DE MUSIQUE | 5 | 222 | 172 | 11840 |
| LES ARTICLES DE LITERIE ETC | | | | |
| SSES PINCEAUX BALAIS ETC | 2 | 11 | 14630 | 33200 |
| AGES DIVERS | 1 | 4 | | |
| TOTAL PAR PAYS | 261523088 | 43899826 | 242122644 | 42914609 |
| 10 PORTO RICC | | | | |
| AREIL MACHINE ENGIN MECANIQUE | 200 | 8999 | | |
| TOTAL PAR PAYS | 200 | 8999 | | |
| 10 ETATS UNIS D'AMERIQUE | | | | |
| BEURRE FROMAGE OEUFS MIEL | 133703 | 80852 | | |
| ES PRODUITS ORIGINE ANIMALE | | | | |
| ITES VIVANTES ET FLEURS | | | 56 | 21000 |
| MES ET PLANTES POTAGERES | 989093 | 493908 | 170 | 565 |
| TS ECORCES AGRUMES ET MELONS | 40438 | 80902 | | |
| THE MATE ET EPICES | 86 | 67 | 598531 | 521786 |
| ALES | 393187058 | 50557223 | | |
| UITS DE LA MINOTERIE | 2096065 | 926445 | | |
| GINEUX GRAINE PLANTE INDUSTR | 170 | 1106 | | |
| VEGETALE DE TEINTURE TANNAGE | 525 | 4590 | | |
| SSES HUILES CIRES ETC | 100000 | 40324 | | |
| ES ET SUCRERIES | 11003920 | 1663652 | 1519637 | 1510731 |
| ARATION DE LEGUMES ET FRUITS | 7 | 16 | | |
| ARATION ALIMENTAIRE DIVERSE | 3818 | 12933 | | |
| SONS ALCOOL ET VINAIGRE | 1 | 104 | | |
| CS | 158047 | 2186422 | 450 | 180 |
| RAUX MATERIAUX CONSTRUCTION | 32710393 | 4132850 | 6919 | 12291 |
| LES PETROLES ET DERIVES | 12177795 | 1457219 | 674811985 | 101696326 |
| UITS CHIMIQUES INORGANIQUES | [illegible] | [illegible] | | |
| UITS CHIMIQUES ORGANIQUES | [illegible] | [illegible] | | |
| UITS PHARMACEUTIQUES | [illegible] | [illegible] | | |
| AIS | 310 | 27152 | | |
| UITS TANNANTS PEINTURES ETC | 640365 | 1201795 | 20000 | 31391 |
| ES ESSENTIELLES PARFUMERIE | 8824 | 34391 | [illegible] | 12871 |
| NS PRODUITS D ENTRETIEN ETC | 62415 | 161338 | 2000 | [illegible] |

ANNEE 1985

COMMERCE PAR PAYS

| N° Chapitre | PAYS & CHAPITRE DOUANIER | IMPORTATION POIDS NET | IMPORTATION VALEUR | EXPORTATION POIDS NET | EXPORTATION VALEUR |
|---|---|---|---|---|---|
| 35 | MATIERES ALBUMINOIDES ET COLLES | 321 | 8923 | | |
| 36 | POUDRES ET EXPLOSIFS ALLUMETTES | 2444 | 81225 | | |
| 37 | PROD POUR PHOTO ET CINEMA NDA | 65402 | 887845 | 120 | 2666 |
| 38 | PRODUITS CHIMIQUES DIVERS NDA | 256057 | 731738 | | |
| 39 | MATIERES PLASTIQUES ET OUVRAGES | 1114688 | 1817483 | 12020 | 4180 |
| 40 | CAOUTCHOUC ET SES OUVRAGES | 89450 | 825919 | 9510 | 39164 |
| 42 | OUVRAGES EN CUIR | 408 | 9105 | 550 | 12936 |
| 44 | BOIS ET OUVRAGES EN BOIS | 104007 | 131130 | 60 | 1469 |
| 45 | LIEGE ET OUVRAGES EN LIEGE | 115 | 2013 | | |
| 46 | OUVRAGES DE SPARTERIE ET VANNERIE | | | | |
| 47 | MATIERES POUR FABRICATION PAPIER | | | 40 | 448 |
| 48 | PAPIERS CARTONS ET OUVRAGES | 7070283 | 2694060 | 319800 | 266637 |
| 49 | LIVRES ET ARTICLES DE LIBRAIRIE | 2935 | 94560 | 42 | 6196 |
| 51 | TEXTILES SYNTHETIQUES CONTINUS | 233610 | 884830 | 812 | 15402 |
| 55 | COTON | 765470 | 1047817 | 17736 | 95708 |
| 56 | TEXTILES SYNTHETIQUES DISCONTINU | 86643 | 164599 | 22850 | 60649 |
| 58 | TAPIS TAPISSERIES DENTELLES ETC | 1286 | 4597 | | |
| 59 | CORDAGES ET TISSUS SPECIAUX | 4825 | 58671 | 8325 | 166520 |
| 60 | BONNETERIE | 38 | 674 | | |
| 61 | VETEMENTS ET LEURS ACCESSOIRES | 2429 | 21126 | | |
| 62 | CONFECTION EN TISSUS NDA | 37344 | 21274 | 8654 | 410264 |
| 63 | FRIPERIE DRILLES ET CHIFFONS | 8553819 | 4465545 | 45 | 462 |
| 64 | CHAUSSURES | 88 | 977 | 556826 | 353995 |
| 65 | COIFFURES | 402 | 2123 | | |
| 66 | PARAPLUIES PARASOLS CANNES ETC | 1 | 26 | 6 | 100 |
| 68 | OUVRAGES EN PIERRES CIMENT ETC | 4992 | [illegible] | | |
| 69 | PRODUITS CERAMIQUES | 91 | [illegible] | | |
| 70 | VERRE ET OUVRAGES EN VERRE | 4572 | 98232 | [illegible] | [illegible] |
| 71 | METAUX PRECIEUX BIJOUTERIE ETC | 13 | 6966 | | |
| 73 | FONTES FERS ET ACIERS | 618193 | 3074062 | | |
| 74 | CUIVRE | 1211 | 34289 | 1860 | 52435 |
| 76 | ALUMINIUM | 1377 | 100353 | 56 | 626 |
| 78 | PLOMB | 110 | 1269 | 6 | 497 |
| 80 | ETAIN | 22 | 4741 | | |
| 81 | AUTRES METAUX COMMUNS | 350 | 15131 | | |
| 82 | OUTILLAGE EN METAUX COMMUNS | 366085 | 3062604 | | |
| 83 | OUVRAGES DIVERS METAUX COMMUNS | 25879 | 167998 | 500 | 7500 |
| 84 | APPAREIL MACHINE ENGIN MECANIQUE | 4374668 | 27635469 | 5 | 1560 |
| 85 | MACHINES APPAREILS ELECTRIQUES | 668962 | 5214659 | 13615 | 193067 |
| 86 | MATERIEL DE CHEMIN DE FER | 14595 | 235497 | 606 | 27992 |
| 87 | AUTOS CYCLES TRACTEURS | 564581 | 3675634 | | |
| 88 | NAVIGATION AERIENNE | 1733 | 175041 | | |
| 89 | NAVIGATION MARITIME | 551 | 22106 | | |
| 90 | OPTIQUE APPAREILS SCIENTIFIQUES | 71236 | 3400355 | | |
| 91 | HORLOGERIE | 913 | 25750 | 15859 | 1111146 |
| 92 | INSTRUMENTS DE MUSIQUE | 22179 | 493648 | 20 | 2567 |
| 94 | MEUBLES ARTICLES DE LITERIE ETC | 18592 | 130176 | 339 | 2141 |
| 96 | BROSSES PINCEAUX BALAIS ETC | 3118 | 31875 | 19491 | 48749 |
| 97 | JOUETS JEUX ARTICLES DE SPORT | 23413 | 66959 | | |
| 98 | OUVRAGES DIVERS | 2483 | 39569 | 10 | 144 |
| | TOTAL PAR PAYS | 523402028 | 133512052 | 602370160 | 106693879 |

## Table 15 a

### Cereals Import Plan for 1987
(in ,000's tons)

| Product | Jan. | Feb. | March | April | Rest of Year | Total |
|---|---|---|---|---|---|---|
| Hard wheat | 49.6 | 100 | 75 | -- | 100 | 325 |
| Soft wheat | 90.65 | 100 | 75 | 25 | 300 | 590 |
| Soya | -- | -- | 15 | -- | 86.85 | 102 |
| Maize | -- | 25 | 25 | -- | 217.3 | 267 |
| Barley | -- | -- | -- | -- | 58.5 | 59 |

## Table 15 b

### Historical Import Levels

| Product | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|
| Maize | -- | 220,000+ | 248,000+ | 223,000+ | 212,000+ |
| Soya | 108,000+ | 56,000+ | 119,000+ | 71,000+ | 103,000+ |

## Table 15 c

### Historical and Printed Cereal Production Levels

| Product | 1983/84 | 1984/85 | 1985/86 | 1986/87 | 1987/88 |
|---|---|---|---|---|---|
| Hard wheat | 584,000 | 1,069,000 | 378,000 | 650,000 | 700,000 |
| Soft wheat | 127,000 | 311,000 | 96,000 | 200,000 | 225,000 |
| Barley | 312,000 | 686,000 | 1[illegible]1,000 | 300,000 | 325,000 |
| Maize | N/A | N/A | 5,000 | 5,000 | 5,000 |

*/All figures were obtained from the CC, Dec, '86 - February, '87. A poor barley and forage crop in Central Tunisia will increase barley and maize import requirements.

ANNEX D

USAID/Tunisia

AGRICULTURAL SECTOR STRATEGY STATEMENT



## EXECUTIVE SUMMARY

USAID/Tunis' Agricultural Sector Strategy Statement is a creative response to the problems faced by the Tunisian economy. It details AID funding for two discrete projects and complementary activities to be financed under a Commodity Import Program (CIP) and with local currency proceeds from the country PL 480 program. The proposed agricultural sector program is focussed on agricultural policy analysis and reform implementation, improved efficiencies in water use and irrigation perimeter operations, reformed agricultural credit through commercial banks, and, in all these areas, much greater private sector participation in asset ownership and enterprise management in agriculture.

After a decade of steady growth and economic expansion in the 1970s, the performance of the Tunisian economy has deteriorated over the last six years. Oil production, the driving economic force in the 1970s, has stagnated and, with the declining price trend per barrel, export earnings have been cut sharply. Prolonged droughts during several recent crop years have depressed agricultural outputs and agro-industrial production. Technical problems continue to plague the phosphate and cement industries; and tourism and exports of manufactured goods were adversely affected by the recession in Europe, high domestic resource costs, and a sizable overappreciation of the Tunisian dinar vis-a-vis the currencies of most trade competitor countries, as well as against the U.S. dollar.

Over the Sixth Economic Plan period (1981-1986), the Government of Tunisia was slow in adjusting domestic demand to the decelerating rate of growth in the economy. Contrary to the Plan's macroeconomic objectives, the investment rate remained high rather than declining, and domestic consumption expanded rapidly, fueled by sharp wage and salary increases and generalized subsidies on food and other consumption goods. The strong demand pressure, spurred on by liberal credit policies, resulted in double-digit inflation rates, a marked worsening of the current account deficit of the balance of payments, and an acute shortage of foreign exchange as imports outstripped exports by an increasing margin. The government's overall budget deficit increased over the period reflecting increases in recurrent expenditures for higher wages and salaries; higher subsidy payments to households and public enterprises; and higher public investments.

Faced in 1984 with clear evidence of economic deterioration which could not be allowed to continue, the Government of Tunisia started belatedly to implement a package of policy measures aimed at stabilizing the economy. While these measures improved the immediate situation, the underlying disequilibrium in the economy remained to be resolved. At the start of 1986, therefore, under conditions of a restrictive government budget and incomes policy, the government faced three major economic problems, one immediate and two somewhat longer term. The immediate problem was the high and persistent deficit in the balance of payments current account. This has led to a concomitent and rapid increase in the country's foreign debt. The two longer term, but equally important, problems are the progressive decline in net hydrocarbon exports, requiring the rapid development of other sources of export revenues and import substitution, as well as the high and growing unemployment and underemployment rates – and the danger of an even worse trend given the high rate of growth in the economically active population at a time of lower overall economic growth.

In formulating its present economic adjustment strategy, the government realized that no single policy instrument or sector focus could deal effectively with all three of these problem areas. Tunisia has developed a carefully balanced and phased package of integrated policy measures which the IBRD and the IMF have agreed to support and which it expects to implement over the remainder of this decade. This comprehensive policy package is based on three major considerations. These are:

1. A return to an export-driven growth strategy;

2. A major improvement in the efficiency of resource use and allocation; and

3. A reorientation of economic development toward much more labor-intensive technologies.

Implementation of this overall macroeconomic reform program - as detailed in Section II of the Statement - will require significant improvements in performance for the three sectors of the economy, correctly labeled by the government, the IMF, and the IBRD as the "engines of growth" over the next decade - manufacturing, tourism, and agriculture.

Like many other middle-income countries, Tunisia has experienced a relative decline in the importance of agriculture in its economy over the past three decades. Part of this relative sectoral decline can be attributed to the historically desirable and well-documented tendency of developing economies to move away from an overwhelmingly dependence on agricultural activities for economic growth. The second factor in Tunisia's case has been the relatively recent and spectacular rise in the contribution of other sectors, chiefly petroleum, tourism, and manufacturing to the GDP figures. And a third is the actual decline in the performance of the sector itself in the last decade.

Unfortunately, just as GDP figures change in response to differential accelerated growth in sectors over time, the relative importance of any one sector also changes as other sectoral growth rates decline and/or stagnate. This is the situation in which Tunisia finds itself at the moment, with the sharp decline in the petroleum sector, marginal improvements in tourism, and increasing difficulties in manufacturing as that sector tries to move from a highly protected past to a more export-oriented future. One consequence of these recent economic changes is that agricultural sector performance is now an increasingly vital element in overall economic growth in Tunisia. The sector potential revolves around possibilities for food import substitution, growth in exports of agricultural commodities, and increased domestic employment.

The reduced growth over the past decade in the agricultural sector has resulted in a widening "food gap" which has placed an increasing strain on the country's balance of payments. Domestic food production has failed to keep pace with increased demand generated by a combination of rapid population growth, a high rate of urbanization, and domestic consumer price subsidies. The ready availability of cheap food imports, subsidized both by Tunisia and the exporting countries, has diverted attention from the underlying sectoral problems. Food imports have increased by about 3.8 percent per annum over the period 1977 to 1986 and the rate of self-sufficiency for key food items has declined over the last decade - i.e. for cereals from 75 to 50 percent. Meat imports more than doubled from 1982 to 1984. If present trends were to continue unchecked, recent projections by IFPRI indicate that by the year 2000 Tunisia would have a cereal deficit of almost 1.3 million tons per year, a milk deficit of about 500,000 tons per year, and a meat deficit of about 200,000 tons per year.

Agricultural exports, principally olive oil, dates, citrus, and wine, have also stagnated with the result that the proportion of sector imports covered by sector exports has fallen from 81 percent in 1976 to 49 percent in 1985. As a result, the sector has accounted for a rising share of the overall trade deficit - from 5 percent in 1976 to 20 percent in 1985. Based on current trends, without policy correction, the agricultural trade deficit, currently at about 185 million dinars per year, could rise to about 565 million dinars per year (at 1986 constant terms) by the end of the century. This would present very difficult problems for the Tunisian economy even if the petroleum, tourism, and manufacturing sectors continued to perform at high levels. Given their collective decline and/or stagnation, however, the projected agricultural situation would be clearly unsustainable and its continuance would effectively wreck possibilities for the success of the government's overall economic strategy.

On the other hand, Tunisia's agricultural potential is far from being fully realized. The levels of inputs used for yield improvements could be increased substantially in rainfed as well as irrigated areas. In rainfed areas, especially where annual rainfall exceeds 350 millimeters, major productivity improvements are attainable through widespread introduction of improved farming techniques - particularly improved tillage practices, increased use of inputs, and more intensive cropping patterns, including pulses and, in some areas and for certain farm sizes, integration of crop and livestock enterprises. In the irrigated areas, there is also considerable scope for yield increases and certainly production growth through greater intensification on the existing perimeters and other sites. Cropping intensity in the areas already fully equipped with irrigation infrastructure through public financing averages only 70 percent while it could easily be in excess of 100 percent. Over the next decade, the aggregate impact of such measures could represent the equivalent of a doubling of the currently irrigated areas- which even in their present highly inefficient state produce 38 percent of agricultural GDP from 5 percent of the arable land surface.

The pace of achievement of this agricultural potential is tied to the speed at which essential adjustments can be affected in macroeconomic and sectoral policies. Past macroeconomic policies have hurt the agricultural sector's development. Overvalued exchange rates, subsidized consumer food costs, low farmgate prices for domestically-produced food (other than cereals), restrictions on imports of agricultural inputs, and the generally heavy public hand intervening in all sector activities have all hindered progress. In recognition of this situation, the government has recently formulated an extensive sector reform program and negotiated support financing from the IMF and the IBRD. The program was finalized in September 1986 and will form the basis for the agricultural sections of the Seventh Economic Plan (1987-1991). Consistent with the objectives of improving the balance of payments situation and alleviating the burden on government budgetary resources, the adjustment program promotes greater sector efficiency and economy in the increased production of agricultural commodities. These can substitute for increasing food imports and lead to increasing exports and enhancing the role of the private sector in the provision of commercially-viable sector support services. The adjustment program includes specific actions to address the identified constraints over a five year period and aims to achieves its objectives by:

1. Improving the prices and incentives framework so that prices and formation mechanisms are further deregulated or linked to world market prices and incentives are made more effective. This effort involves achievement, within reasonable time frames, of alignment of producer prices with world market prices and elimination of input subsidies. These actions are expected to result in better farmer supply response for those crops and livestock production activities for which Tunisia has a medium-term comparative advantage.

2. Reorienting the public investments and expenditure program towards low cost, high priority, quick maturing projects and programs with lower budgetary demands, while assuring adequate funding for maintaining past investments; and introducing a "core" program within the Seventh Economic Plan to safeguard and accent certain key programs.

3. Strengthening basic services in support of farmers, while privatizing those government services which are commercially-viable, and greatly improving cost recovery in the others.

4. Building up the sector performance monitoring and policy analysis capabilities of the Ministry of Agriculture.

5. Improving productivity of land use and management of the country's forest and fisheries resources.

Full details of this adjustment program can be found in Section III of the Statement.

The USAID/Tunis agricultural sector program activities, as presented in Section IV of the Statement, were selected after meeting four separate sets of criteria. They were:

1. The activity would directly support the agricultural sector adjustment program as defined in the IBRD sectoral adjustment loan and the Seventh Economic Plan "core" agricultural program.

2. The activity conforms to the specific USAID criteria based upon AID policy guidelines and constraints - see Section IV.2., page 15.

3. The management requirements for the activity are compatible with USAID/Tunis personnel capabilities and known strengths of American agricultural expertise.

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4. The activity directly addresses USAID/Tunis' specific policy reform agenda in agricultural import substitution, agricultural commodity marketing and exports promotion, agricultural credit, irrigation improvement; and/or economic policy analysis and implementation - see Section IV.4., page 17.

Our agricultural sector program, therefore, consists of the following two projects and several activities to be financed with the proceeds of the Commodity Import Program (CIP) and/or the PL 480 program.

1. <u>The Agricultural Policy Implementation Project (APIP)</u>

USAID/Tunis considers this project to be the keystone of its agricultural program over the medium-term. As such, the project design, which started in September 1986 with AID/W assistance, has been fully responsive to the needs within the sector adjustment program. The project's central objectives are:

a. To provide the government, through the Ministry of Agriculture, with detailed and quantitative analyses of the impacts of current and proposed agricultural policies on sector efficiency and public finances.

b. To develop from these analyses, detailed implementation plans for fine-tuning the anticipated policy reforms and implementing the sector adjustment program.

c. To build up the institutional capacity in the Ministry of Agriculture to continue and broaden the scope of such analyses and sector planning over the Seventh Plan period.

d. To further strengthen the linkages between GOT policy formulators and decision-makers thereby enhancing the the transformation of policy studies into implemented policy reforms.

2. <u>The Irrigation Intensification and Water Management Project</u>

We propose to design this project in mid-1987 to assist the government in improving irrigation sub-sector performance. The sub-sector is clearly functioning at much less than an optimal rate of efficiency and we believe that very significant increases in productivity can be achieved over the medium-term if well-targeted assistance can be mounted quickly to reform current operational policies and encourage greater private participation in the ownership and management of the existing perimeters. Moreover, we believe that, since the government has already made substantial investments in the necessary irrigation infrastructure, our assistance at this point has the distinct advantage of making large gains in operational efficiencies and production without having a project saddled with enormous up-front investments costs for infrastructure. Finally, we believe that this sub-sector has both the highest potential for significant and stable increases in food production in the medium-term and the greatest potential difficulties in accomodating rapidly to the changed economic conditions of the sector adjustment program. Having been the major recipients of public investment, assistance in subsidized water and other input prices, and heavy intervention by government managers, the farmers on irrigated land will have to make extensive adjustments in their present enterprises to adapt to new economic price, marketing and policy signals. Given that the sub-sector already produces a very considerable proportion of Tunisia's agricultural production - and particularly of its high value and export crops - facilitation of this sub-sector reform is essential to the success of the overall sector adjustment program and the government's macroeconomic strategy.

Our project would be designed to dovetail with the activities undertaken in the IBRD's Irrigation Management Improvement Project with the following orientations:

a. To provide professional expertise in improving the technical efficiencies of on-farm water use for different crops under irrigation. This assistance would be available to farmers in both private and public irrigation systems.

b. To provide expertise in the testing and evaluation of alternative irrigation methods for their applicability to Tunisian technical, economic and social conditions.

c. To assist in affecting the transfer of public perimeters to private ownership/management as part of the government's policy of divesting itself of these entities.

d. To foster greater participation of the private sector in supplying agricultural inputs and services for farmers in irrigated perimeters and in marketing agricultural produce from these areas.

e. To train Tunisians in the economic and socio-organizational aspects of managing irrigation perimeters under conditions of significant private participation in operations and maintenance through user associations, cooperatives, and other types of organization.

Finally, we envisage local currency proceeds under the CIP and PL 480 program (Sections 106 and 108) being used in part in support of the following agricultural sector activities:

1. Local currency support for the APIP to be used:

   a. To implement pilot reform activities emanating from policy studies and thereby providing the basis for the eventual adoption of tested policy reforms.

   b. To execute studies and research activities; and

   c. To fund temporary economic policy analysis staff expension and operating expenses for the Ministry of Agriculture's Agricultural Planning, Statistics, and Economic Analysis Division (DPSAE) over the life of the project.

2. Local currency support for the Irrigation Intensification and Water Management Project in 1988 and beyond for necessary local costs of staff support, operating expenses, and pilot activities to increase private sector incentives in perimeter management and service support.

3. An agricultural finance facility through the commercial banking system with loan windows for:

   a. Agricultural credit support programs for direct production and medium-term equipment/facility loans to private service cooperatives and farmers;

   b. Widening the private distribution system for agricultural inputs - i.e. fertilizers, pesticides, herbicides, and certified seed - through credit for input supply centers, inventory stocks, and rolling stock for input distribution/client service operations.

   c. Promoting Tunisian agricultural exports for operational and investment credit to firms dealing in grading, packing, processing and/or shipping export commodities.

4. A PL 480 Section 416 program "safety net" program to assist the GOT in retargeting consumer food assistance to those most adversely affected nutritionally by the macroeconomic adjustment program.

ANNEX E

GOT/IBRD

# THE AGRICULTURAL SECTOR ADJUSTMENT PROGRAM

## SUMMARY

The main elements of the sector adjustment program were developed by the GOT in collaboration with the IBRD in late 1985 and early 1986. The program was finalized and approved in September 1986 and forms the basis for the agricultural sections of the Seventh Plan (1987-1991). Consistent with the objectives of improving the balance of payments situation and alleviating the burden on GOT budgetary resources. The adjustment program promotes greater efficiency and economy in the increased production of agricultural products. These can substitute for increasing food imports and lead to increasing exports and enhancing the role of the private sector in the provision of commercially-viable sector support services. The adjustment program includes specific actions to address the identified constraints over a five year period (1986-1991) and aims to achieve its objectives by:

a. Improving the prices and incentives framework so that prices and formation mechanisms are further deregulated or linked to world market prices and incentives made more effective. This effort involves achievement, within a reasonable time frame, of alignment of producer prices with world market prices and elimination of input subsidies. These actions are expected to result in better farmer supply response for those crops and livestock production activities for which Tunisia has a medium-term - comparative advantage.

b. Reorienting the public investment and expenditure program towards low cost, high priority, quick maturing projects and programs with lower budgetary demands, while assuring adequate funding for maintenance of past investments.

c. Strengthening basic services in support of farmers, while privatizing those government services which are commercially viable, and greatly improving cost recovery in the others.

d. Building up the sector performance monitoring and policy analysis capabilities of the Ministry of Agriculture.

e. Improving productivity of land use and management of the country's forest and fisheries resources.

a. The Prices and Incentives Adjustment Initiative

Although an estimated 75 percent of domestic agricultural production is now sold freely under domestic market conditions and/or exported, these markets are heavily influenced by government policies in the control of the exchange rate, trade practices, and input/output prices and subsidies. Past policies in these areas have generally not favored efficient agricultural production and have not promoted an adequate environment for agricultural exports. Past overvaluation of the dinar has hampered fruit and vegetable exports while artificially cheapening the imports of cereals and livestock products, which themselves are systematically subsidized in their countries of origin. Moreover, in order to achieve low consumer prices for food without fiscal burdens for the GOT, these commodity imports have been allowed to enter Tunisia free of tariffs. By contrast, industrial production in the country has been protected against the exchange rate overvaluation by high tariffs and quantitative restrictions.

Production of cereals has been discouraged by controls on consumer prices and establishment of administered producers prices, which are often out of alignment with world prices (even at the official exchange rate). In?addition, producer price manipulations have introduced unnecessary market distortions between commodities within the sector as, for example, the pricing of durum wheat for which Tunisia has a distinct comparative advantage near the same level of bread wheat, despite of 30 to 40 percent premium for durum wheat on world markets. Further, by narrowing the margin to the processing industries, consumer price controls on milk and beef have moved these industries to prefer imports to processing local production.

Through input subsidies on irrigation water, animal feed, fertilizer and other inputs as well as investments, the GOT has tried to offset the adverse effects of its output price policies, but the sector remains seriously taxed on a net basis and finds itself heavily encumbered by a whole series of inefficient and costly government subsidy schemes. Best available estimates at present show effective protection levels of about 5 to 25 percent for agriculture, as opposed to 75 percent for industry. This array of inadequate incentives for investments in the agricultural sector show up in the failure to attract sufficient private investment in the sector under the Sixth Plan (31 percent versus Plan projections of 50 percent) and in the need for the government to participate directly in sector investments, subsidize the entire range of private investments, and absorb the efficiency losses from the whole cumbersome system.

Input subsidies have also given rise to further important distortions and unequal relative incentives for different crops and production systems. Rainfed crops, like cereals and olives, show a relative underprotection compared to irrigated crops, while feed concentrate-based livestock production is overprotected. compared to rainfed forage system for which the local conditions are well adapted. Cereals as a group have an effective protection of about -15 percent. Animal feed subsidies have worsened the external trade situation by encouraging imports of corn, while the domestic potential for forage production has gone largely underutilized. The production of barley, for which again has a distinct comparative advantage, has suffered from an official producer price which was 20 percent below world prices in 1985. Fertilizer and seed subsidies have enable cereal producers to benefit from their use, but, because they have only been available through the parastatal Office of Cereals, the private sector has been discouraged from great participation in input marketing and seed production with the result that many farmers in less accessible rainfed areas do not yet have assured access to modern inputs.

Government input subsidy policies also continue to weigh heavily on public resources. The Caisse Generale de Compensation, the principal GOT agency administering the subsidy programs, paid out 16.5 dinars ($ 22.8 million at official exchange rates) in fertilizer subsidies and 20.1 million dinars ($ 27.8 million) in animal feed subsidies alone in 1985. Subsidies on irrigation water, affecting less than 5 percent of the arable land, are estimated at 23.0 million dinars ($ 32.0 million) annually, consisting of about 2/3 capital and 1/3 operating and maintenance subsidies. Subsidies to consumers for food products in 1986 are expected to be about 250 million dinars ($ 345 million), about 2/3 of this for durum and bread wheats. To reduce the high fiscal cost and improve the effectiveness of its pricing policies, the GOT has already taken some important adjustment steps, including raising producer prices for cereals and milk faster than the rate of inflation, instituting a price premium for durum wheat compared to bread wheat, introducing a consumer price increase for fresh -) as opposed to reconstituted milk, reducing input subsidies, increasing irrigation water charges, and increasing consumer prices for beef by about 20 percent. More recently, the government has developed a ten year program for the full recovery of operating and maintenance costs of irrigation water.

While these initial actions are encouraging and indicative of the GOT's will to implement reforms, much more remains to be done. Specific areas for further action in the realm of price and incentives adjustment are:

(1) Development and implementation of an effective producer price strategy which gives incentives to farmers for production of crops for which Tunisia has a comparative advantage, and which leads to an improvement in the sector's trade balance (taking into account world market price trends, movements in exchange rates, and the trade policies of major competiting exporters). The strategy will involve consumer price

liberalization for those commodities where government subsidy intervention is not essential and improvement in the system of administrative pricing for essential com,modities. Immediate steps will be taken to correct known pricing imbalances based on the best available data and to develop the institutional arrangements, working tools, and methodologies for follow-up actions for the period of the Seventh Plan. Market liberalization will be accompanied by measures to protect against temporary export price reduction measures in other export,ing countries. Minimum 15 percent tariffs will be applied to imports of all commodities, as well as included in the deter,minat,ion of administered prices in the cases of cereals.

(2) Implementation of a program for the phase-out of input subsidies on irrigation water (over the next 10 years), fertilizer (5 years), animal feed, certified seed, pesticides and 2.4.D herbicide (3-4 years). These measures will be aimed at shifting protectionist patterns within the sector in favor of efficient rainfed production systems. The timing of specific subsidy reductions will be coordinated with adjustments in output prices and other macroeconomic variables - i.e. exchange rates and industrial tariffs - so as to gradually reduce the differences in relative incentives within agriculture and between the sector and other sectors, particularly industry.

(3) Development and implementation of an effective strategy for the promotion of sector exports to achieve a growth rate of 4 percent over the Seventh Plan period, in line with the emphasis in the macroeconomic adjustment program on the development of exports in general. This strategy would include commodity and market-specific measures to diversify exports of traditional and new crops, given the limitations of growth in the EEC market. This would also involve the systematic evaluation of incentives, removal of administrative bottlenecks, refocussing of research and develop,ment efforts, and a review of the role of parastatals in market development.

b. The Rationalization of Public Expenditures Initiative

During the 1970s, the allocation of public, as well as private, resources in agriculture was declining as other sectors, particularly petroleum and tourism, were growing more rapidly. The expenditure pattern within the sector was highly capital intensive since the focus was on bringing new lands under cultivation through irrigation development downstream of a number of dams. The incremental capital output ratio in the sector was much higher than in manufacturing. Since resources were plentiful, public expenditures carried the burden of most new investments; in fact, the share of private investment in the sector declined from 38 percent in 1980 to 31 percent in 1985, compared to a Sixth Plan projection of 50 percent. The proportion of investment devoted to irrigation infrastructure and operations peaked in 1977-1981 at 44 percent of total public expenditures in the sector. Farm machinery expenditures similarly peaked at 18 percent of the total during this same period. Meanwhile, the allocations of available resources made to agricultural research, extension services, and conservation of natural resources were reduced.

Recent adverse developments in external markets indicate that the resource base for public expendit-ures under the Seventh Plan will be seriously constrained. Even in the Sixth Plan period, the actual expenditures in the sector will only be about 90 percent of the original allocations, and the proportion of the sector in the total, about 16 percent, compared to original expectations of 19 percent. The GOT's sector adjustment program involves implementation of an investment strategy which recognizes the overall constraints on budgetary resources as well as taking into account the increasing importance of agricultural development in the post-petroleum era that Tunisia is now entering. This translates into ensuring that all investment activities in the sector are consistent with sectoral and subsectoral investment strategies and rigorous project selection criteria. Within a sectoral planning figure of 22 percent of total Seventh Plan investments, the sector expenditure strategy would focus on increased efficiency in the use of resources by maximizing returns on past investments; promotion of cereals, meat, milk, fish and forestry production for export and import substitution; greater labor intensity in expenditures - i.e. through a more appropriate policy of minimum wages, interest rates, and other investment incentives; and privatization of commercially viable sector support activities.

Sub-sector expenditure priorities consistent with this strategy are now being finalized in the approval process for the issuance of the Seventh Plan. For the key sub-sectors, the following types of investment?strategies will be adopted:

(1) In irrigation, the objectives will be to finish downstream investments in ongoing projects after completion of a reevaluation of their viability; to focus on rehabilitation and maintenance in the existing projects; and to improve water use management and operational efficien.cies at both the regional and field levels.

(2) In livestock, emphasis will be on promoting more private sector investment in services and production; improving support services in cross-breeding to improve the genetic quality of the local herd; strengthening livestock research and extension services; and achieving better cost recovery in animal health and breeding services.

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(3) In agricultural research and extension, objectives will be in training more subject matter specialists; improving mobility and skills of a unified extension service; focussing investments on a few key regional research centers with developed and priority research programs for export crops, cereals and rainfed forages; constructing new extension centers with associ,ated housing mainly in rainfed cropping areas.

(4) In forestry and fruit tree development, the objectives will be in accelerating investments in nursery development; controlling overgrazing in regeneration areas to bring existing forests back into production; encouraging private sector involvement to replace state support; and to reorient the latter away from fruit trees and towards reforestation and creation of permanent pastures.

(5) In grain storage, focussing on rehabilitation of existing facilities to increase capacity and improve the domestic collection network, and on modernization, including bulk grain handling, to improve cost effectiveness.

(6) In fisheries, to better utilize installed capacity in terms of ports, boats, infra,structure, and cold storage; to encourage private investment by foreign interests in joint ventures to develop new export markets; and to promote investments for developing the underutilized bluefish resources for domestic markets.

All agricultural projects in the Seventh Plan should conform to the above strategies and will meet strict project selection criteria - i.e. economic rates of returns over 10 percent, based on evaluation with economic prices for unskilled labor, production inputs, and outputs. To maintain investment efficiency in the case of resource constraints by avoiding against across-the-board cutbacks, the GOT is also implementing the concept of a "core program", provisionally fixed at 65 percent of the total Seventh Plan initial allocation to each sector. Projects included in the "core program" would receive priority in the event of such cutbacks. Criteria are now being developed for the selection of projects in the "core program". Project selection is expected to focus heavily on economic viability, short production response times, and low public budgetary needs. The "core program" criteria will apply to ongoing as well as new projects. Inclusion of new projects to the list will be subject to careful scrutiny against these criteria and the distribution of actual expenditures between sub-sectors and to the "core program" will be closely monitored, using a system developed in collaboration with the IBRD.

### c. The Strengthening of Agricultural Support Services Initiative

Despite the sizeable expenditures made in the past on government services in support of agriculture, only a small minority of farmers have reliable access to effective extension services backed up by relevant research efforts, farm machinery services, input and output markets, and institutional credit. Agricultural extension and research facilities have been constructed in most parts of the country but, given the multiplicity of special area and commodity-specific services in extension, farmers often receive different and even conflicting advice from different extension agents. Extension agents spend a large proportion of their time on non-extension work such as input distribution, credit, and collecting statistics and they generally have no subject-matter specialists on whom to call for technical guidance and advice in their presentations to farmers. There has been a lack of a coordinated approach in planning and executing priority agricultural research, and research institutes have suffered from high turnover of trained and experienced personnel due to unfavorable remuneration schedules compared with teaching. Linkages between research activities, extension services, and resolution of actual on-farm problems are judged to be very weak by most observers.

There have been serious problems with a whole gamut of other government-sponsored agricultural services. Farm machinery services have suffered from the recent monopoly of the locally-manufactured Mateur tractor which has led to poor after-sales service, and from the presence of the public sector tractor hire agency, SONAM, in many areas and types of services which has tended to discourage private sector initiative and investment. Farmers, particularly in less accessible rainfed cropping areas, do not have assured access to fertilizers and seeds because of the predominance of the government parastatal, Office des Cereales, which by its policies has tended to discourage private sector participation in input distribution. This parastatal does a reasonably good job of serving the larger farmers and those close to its regional sale centers. However, low and controlled margins for private traders, and a pricing formula which leaves potential private sector competitors at a disadvantage, affects the availability of inputs to small- and medium-scale farmers in many rainfed areas.

Even though the total volume of agricultural credit has grown by over 50 percent since 1980 and not all farmers need or should be granted credit, only 10 to 20 percent of Tunisian farmers receive short-term institut-ional credit, and 85 percent of the productive medium-term investment credit is dependent on the budgetary and external resources of the government. Although the overall loan

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recovery rate is 70 percent, the recovery rate under the preferential agricultural loan fund, FOSDA, for the 95 percent of all farmers classified as "small- or medium-farmers", is less than 50 percent making large annual replenishments to credit funds necessary from the government's budget. Similarly, livestock services, which are provided free of cost by government departments, have now been widely accepted and should be prime candidates for better cost recovery and progressive transfer to the private sector or cooperatives.

Some important actions have been taken by the GOT to improve the efficiency of certain sector support services. Cognizant of the need to reform agricultural research and extension services and programs related to farm mechanization, the government commissioned master plan studies in these areas with funding from the IBRD. These master plans have been completed and will form the basis for key policy decisions in the near-term. Some features of the IBRD's "Training and Visit" extension system are also being tried on the pilot basis in four governorates under the IBRD-financed Northwest Agricultural Production Project. Fertilizer resale margins for the private sector have been increased in the past two years and other actions have been taken as first steps for increasing competition in the agricultural input distribution system. Interest rates for agricultural loans, including those for the preferential agricultural loan funds (FOSDA and FOSEP) have been raised to levels which are now mostly positive, at about 1 percent over the rate of inflation. These increases, however, still do not provide sufficient incentives to financial institutions. Financial institutions have made little effort to actively seek out farmers for lending candidates, expand agricultural lending for other clients, or raise additional deposits and apply these to agricultural lending.

The government, under the sector adjustment program, intends to take the following actions in the area of agricultural support services:

(1) For agricultural research, a formal review of the recently completed master plan will lead to the adoption of a five-year program to strengthen the research network, including organizational and network restructuring, definition of a priority research program, and complementary actions to improve the status of researcher staff and determination of longer term national research priorities.

(2) For agricultural extension, a formal review of the parallel master plan for agricultural extension will be conducted leading to adoption of a restructured program to establish a "Training and Visit" unified extension system nationwide during the Seventh Plan period.

(3) For farm mechanization, the government would ensure that adequate incentives are created for effective after-sales services for both domestically-manufactured and imported tractors. These incentives would include the lifting of the current ban on imported tractors and replacing it with temporary and reasonable tariffs and a liberalization to allow imports of at least three or four makes of tractor, based on appropriate criteria. In addition, the government would implement a program for progressive transfer of farm mechanization services to the private sector, starting with a selective withdrawal of SONAM from areas where the private/cooperative sector could take over the rental of non-specialized machinery.

(4) In input marketing, the GOT will implement a program to encourage greater private sector participation by ensuring that public sector pricing does not undercut the private retailers and by progressively eliminating controls on fertilizer resale margins. A phased withdrawal of the public sector from those commercially viable areas where the private sector is likely to be ready to take over the full range of input distribution will be affected. The phasing out of seed subsidies will be accompanied by the implementation of a program to develop alternative systems of quality seed distribution to replace the present seed exchange program.

(5) In agricultural credit, an action plan will be implemented to improve margins for credit agencies permitting them to cover all costs of agricultural lending and to improve recoveries. This will be accompanied by a redefinition of the "small- and medium-scale" farmers to transfer more farmers' accounts from the state-financed FOSDA to the coverage of normal agricultural lending through banking institutions, thereby reducing the dependence of the agricultural credit system on the GOT budget. Parallel actions will be taken to make operational the Guarantee Fund and to strengthen the refinance system to gradually involve other credit agencies besides the National Bank of Tunisia (BNT), as interest rate margins improve.

d. The Improvement of Land Use Policy and Conservation of Natural Resources Initiative

Efficient land use in Tunisia is constrained on private farms by fragmentation, lack of clear titles and security of tenure, and an inefficient management of collective and public lands. On average, a typical Tunisian farm consists of four fields, with 25 percent having more than six. Land titles, particularly in the fertile North, are seldom available and the process of providing titles is slow. Land consolidation measures have been launched in irrigated areas where about 45,000 hectares have been consolidated since the early 1970s, based on minimum holding size established

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by law, but there is no consolidation program for rainfed areas. Improvements are also needed in the security of tenure arrangements, particularly in the North where 30 percent of the land is leased. Present land lease legislation provides for only short-term leases of one to three years, and needs strengthening in relation to the length of the lease and compensation for improvements made by tenants. In the case of collective lands, about 560,000 hectares have been transferred to 75,000 private farmers since independence. More recently, the GOT has been offering some collective land to private companies and making efforts to improve the management of other areas through the preparation of integrated development plans supported by credit facilities.

The government's sector adjustment program envisages the continuation of the transfer of collective lands to private parties and other efforts to improve their management and the establishment of a legislative framework which encourages land consolidation in rainfed areas. This would involve the extension of the current land consolidation legislation in irrigated areas to rainfed areas after suitable modifications, as well as reorganization of the role of the government agencies involved in land regulation to achieve this task without major personnel expansion. Land titling, and while this is pending, issuance of certificates of possession, is being accelerated. Necessary actions such as aerial photography, improved mapping, etc. to speed up the National Cadastre will also be taken. Measures to increase security of tenure including providing for longer leases - i.e. 6 to 9 years - would be established by new legislation and implemented.

The nation's forestry resource remains underdeveloped. Its potential is unexploited and its surface area is probably in regression primarily as a result of overgrazing and illegal cutting of trees for fuel. A new forest inventory will be required to identify forest losses accurately, but they could easily amount to one or two percent (9,000 to 18,000 hectares) per year. The sector adjustment program aims to increase resources available for forest development and protection by bringing expenditures more closely into line with production potential and to safeguard the forest while increasing production by designating selection regeneration areas for more effective management. A modest investment in equipment, training and organization could practically double present wood production in the medium-term, and the government is preparing a major forestry development project with the assistance of FAO.

Fishery resources are nearly fully exploited as far as high value demersal species are concerned. The present exploitation of small pelagic bluefish, however, is only at about 30 percent of its potential. It is these cheaper species that are in demand for the domestic market and yet marketing of fish in the interior of Tunisia was been constrained by rigid controls on private dealer margins. For lack of a well-established market, some high value demersal resources - i.e. lobsters - as well as some high value pelagic species - i.e. swordfish - which could be exported, are also underexploited. The sector adjustment program aims to further stimulate fish exports as part of its export promotion program while deregulating domestic fish marketing margins to encourage fuller exploitation of the existing underutilized bluefish resources and fishing boat capacity.

e. The Strengthening Policy Analysis and Monitoring Capabilities Initiative

A primary reason for the relative neglect of the sector's unexploited potential has been the inadequacy of adjustments in sector policies to meet the changing economic environment Tunisia is facing in the 1980s. The primary focus of the Ministry of Agriculture's Department of Planning, Statistics and Economic Analyses (DPSAE) has been on project analysis, simple farm surveys to establish production costs, and routine budgetary functions. To meet the challenge of the adjustment program, DPSAE needs considerable strengthening. The sector adjustment program aims to strengthen the sector performance monitoring and policy analysis capacity of the DPSAE. This capacity will be built-up in order to launch a detailed price policy review in the agricultural sector. The review will focus on better assessing the main economic impacts of alternative sector policies, as well as the fiscal costs of the price formulation processes in agro-industry. In addition, a computer-based system for monitoring sector expenditures, and capacity to undertake special policy evaluation studies will be established. Such policy analysis work will directly facilitate the tasks of monitoring the implementation of the sector adjustment program and taking suitable and timely corrective actions as needed.

It is evident from the above sections that the sector adjustment program for the medium-term is both far-reaching and energetic. It is a "live" program which will need constant fine-tuning and considerable expertise to implement in a timely and economically sound manner. The activities undertaken will necessarily be subject to refinement, amplification, and correction based on close monitoring and evaluations of their impacts and based on much additional analytical work to be completed over the Seventh Plan period. To be successful, the sector program will have to have the active support of both the GOT and the donor community during its implementation.

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ANNEX E

ACTION MEMORANDUM

To : Regional Environmental Officer, S. Lintner

Thru : Mission Environmental Officer, M. Karns

From : Mission Director, C.F. Weden

Subject: IEE Negative Determination for FY 87 CIP (664-K-602)

Problem : For the FY 1987 Commodity Import Program, a determination must be made on whether an initial environmental examination is required.

Discussion: Based on the terms of Section 216.2 (c)(i), which state "The action does not have an effect on the natural or physical environment". The FY 1987 CIP should be granted a negative determination. Under the CIP, balance of payments support will be provided in the form of foreign exchange for the purchase of soya. Soya, in the form of pellets, will be imported to Tunisia from the U.S. as a component in animal feeds. The animal feeds are used for poultry and dairy operations. The soya will supplement requirements that would need to be imported regardless of whether U.S. CIP assistance was available or not. As consumable animal feed, soya will have no impact on the Tunisian environment.

Recommendation: That you approve a negative determination for the Initial Environmental Examination required under the Tunisia FY 1987 CIP.

approved: Harry VanSchaik

disapproved: ____________

date: 22 Apr 87

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ACT: AID-2 INFO: AMB DCM ECON 5

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SUBJECT: TUNISIA APIP (664-0343) AND CIP (664-K-602) IEE DETERMINATIONS

ANE/PD/ENV ENVIRONMENTAL COORDINATOR APPROVES NEGATIVE DETERMINATION FOR THE INITIAL ENVIRONMENTAL EXAMINATIONS OF SUBJECT ACTIVITIES. COPIES ARE BEING POUCHED.
REGARDS. WHITEHEAD
BT
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# ANNEX G

## Statutory Checklists

1. Country Checklist
2. Standard Item Checklist
3. 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 States? 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?

7. FAA Sec 620(l). 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.

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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?

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| 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.) | Yes. Taken into account by the Administrator at the time of approval of Agency OYB. |
| 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? | No. |
| 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.) | Tunisia is current in its payments. |
| 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 | No. |

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?

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| 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

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| 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.

## 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.

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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?

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| 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. Yes. 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.

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j. <u>FY 1985 Continuing Resolution, Sec. 510.</u> To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? — Yes.

k. <u>FY 1985 Continuing Resolution, Sec. 511.</u> 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. <u>FY 1985 Continuing Resolution, Sec. 516.</u> 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 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.

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 assistance, local currency generations will be used to meet longer-term agricultural policy adjectives

(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;

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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:

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.

(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.

(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, integrated delivery systems for

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;

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(iv) reconstruction after natural or manmade disaster;

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

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

(5) (107) is appropriate effort placed 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.)

(c) FAA 118(c) and (d). Does the assistance comply with the environmental procedures set forth in AID Regulation 16. Does the assistance take into consideration the problem of the destruction of tropical forests?

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

(e) 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?

ANNEX H

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