

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT IDENTIFICATION DOCUMENT FACESHEET (PID)	1. TRANSACTION CODE A = Add C = Change D = Delete <input type="checkbox"/> A	DOCUMENT CODE Revision No. _____ 1
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2. COUNTRY/ENTITY USAID/TUNISIA	3. PROJECT NUMBER 664-0356/HG-005
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4. BUREAU/OFFICE Near East Bureau A. Symbol _____ B. Code <input type="checkbox"/>	5. PROJECT TITLE (maximum 40 characters) Priv. Participation Environment Services
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6. ESTIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION A. Initial FY <input type="text" value="9"/> <input type="text" value="3"/> B. Final FY <input type="text" value="9"/> <input type="text" value="7"/> C. FACD <input type="text" value="9"/> <input type="text" value="8"/>	7. ESTIMATED COSTS (\$000 OR EQUIVALENT, \$1 =) <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <th colspan="2">FUNDING SOURCE</th> <th>LIFE OF PROJECT</th> </tr> <tr> <td>A. AID</td> <td></td> <td>53,000</td> </tr> <tr> <td>B. Other ILE</td> <td>1. _____</td> <td></td> </tr> <tr> <td></td> <td>2. _____</td> <td></td> </tr> <tr> <td>C. Host Country</td> <td></td> <td>51,000</td> </tr> <tr> <td>D. Other Donor(s)</td> <td></td> <td></td> </tr> <tr> <td colspan="2" style="text-align: center;">TOTAL</td> <td>104,000</td> </tr> </table>	FUNDING SOURCE		LIFE OF PROJECT	A. AID		53,000	B. Other ILE	1. _____			2. _____		C. Host Country		51,000	D. Other Donor(s)			TOTAL		104,000
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TOTAL		104,000																				

8. PROPOSED BUDGET AID FUNDS (\$000)							
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. 1ST FY 93		E. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
1) ESF				600		3,000	
2) HG					HG 10,000		HG 50,000
3)							
4)							
TOTALS				600	HG 10,000	3,000	HG 50,000

9. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)	10. SECONDARY PURPOSE CODE
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11. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each) A. Code _____ B. Amount _____	
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12. PROJECT PURPOSE (maximum 480 characters) <div style="border: 1px solid black; padding: 10px; min-height: 80px;"> To improve the coverage and efficiency of urban environmental services through increased participation of the private sector. </div>

13. RESOURCES REQUIRED FOR PROJECT DEVELOPMENT Staff: 1. Existing USAID/Tunisia and RHUDO/NEA staff. 2. Project Paper Support team via IQC Delivery Order. Funds \$100,000 NE Bureau PD&S

14. ORIGINATING OFFICE CLEARANCE	Signature: <i>James A. Graham</i> Title: DIRECTOR, USAID/TUNISIA	15. DATE DOCUMENT RECEIVED IN AID/W. OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION Date Signed: MM DD YY 03 05 93
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16. PROJECT DOCUMENT ACTION TAKEN <input type="checkbox"/> S = Suspended <input type="checkbox"/> A = Approved <input type="checkbox"/> D = Disapproved <input type="checkbox"/> CA = Conditionally Approved <input type="checkbox"/> DD = Decision Deferred	17. COMMENTS
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18. ACTION APPROVED	Signature: _____ Title: _____	19. ACTION REFERENCE BEST AVAILABLE COPY	20. ACTION DATE MM DD YY
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USAID/TUNISIA

PROJECT IDENTIFICATION DOCUMENT

PRIVATE PARTICIPATION in ENVIRONMENTAL SERVICES (664-0356/HG 005)

INTRODUCTION

The economy of Tunisia is increasingly based in urban areas where export industries and tourist facilities are expanding (more than 80% of GDP is currently produced in urban areas). Urban population levels are already significant (60%), and urban population growth rates (3.7%/year) are twice those of rural areas. Accommodating both economic and demographic growth in cities will require greater development of urban areas. But this development must be environmentally sound if it is to be sustainable in the long run.

Shelter conditions, especially for low income households, are more directly affected by the inadequate supply of urban environmental infrastructure than any other factor in Tunisia. Therefore, USAID/Tunisia proposes to design the Private Participation in Environmental Services (PPES) program. This \$104 million program would combine \$51 million from the GOT and \$53 million of AID resources (\$50 million HG/\$3 million grant) to address Tunisia's urban environmental development.

The PPES will be designed as a policy reform program with two components. The grant supported Policy Component will assist the GOT to implement an enabling structure of policies, institutions and incentives for greater private sector activity in the financing, delivery and management of environmental services. The HG supported Capital Component will provide budget support to the Tunisian environmental institutions based upon their progress in implementing this enabling structure. With \$10 million of HGs provided annually, the PPES will serve as a quick-disbursing, highly leveraged method for sustaining meaningful assistance levels to Tunisia.

I. PROGRAM FACTORS

A. Conformance with Recipient Country Strategy/Program

Environmental protection and urban development are key themes of the Tunisian Eighth Plan (1992-1996) development strategy. The proposed PPES program will assist the Government of Tunisia (GOT) to advance key policy objectives of this Plan in the interrelated sectors of Environmental Protection, Shelter, and Urban Development.

1. Environmental Protection

The GOT's main objectives, as stated in the Eighth Plan and further stressed by President Ben Ali, consist of:

- improving natural resources management;
- improving environmental conditions in urban areas through the adequate delivery of urban environmental services; and,
- increasing the participation of local governments, the private sector and local NGOs in the provision of these services.

The GOT priorities in achieving these environmental objectives include the construction of wastewater collection and treatment systems in 100 municipalities and the development of 23 sanitary landfills, one in each governorate. The National Sewer Authority (ONAS) and the National Environmental Protection Agency (ANPE), both under the tutelage of the recently created Ministry of Environment and Land Use Planning, will be the respective implementing agencies of these programs which will see a substantial involvement of local and regional authorities, the private sector and environmental NGOs.

2. Shelter and Urban Development

Government of Tunisia objectives support:

- the promotion of an environmentally sound urban growth through the efficient delivery of urban infrastructure and services;
- the delivery of affordable land and shelter to low-income families;
- the decentralization of responsibilities and resources to municipalities to provide land, shelter and related infrastructures and services; and,
- the implementation of a new "Program of Integrated Urban Development" (PDUI) aiming at improving living conditions and increasing economic activities in poor urban neighborhoods.

To accomplish these objectives, the GOT seeks to encourage the construction of 40,000 low income housing units during the plan period. Under the technical responsibility of the Ministry of Public Works and Housing, this program will be implemented essentially through the use of private developers by municipalities to create affordable housing. The GOT is also implementing President Ben Ali's 220 Quartier Populaires program for upgrading poor urban neighborhoods in need of rehabilitation. This program will be executed by ONAS and the Urban Rehabilitation and Renovation Agency (ARRU).

USAID/Tunisia support to the GOT shelter and urban development sector activities has

gradually moved beyond financing shelter and infrastructure investments to supporting reforms in sector policies and the implementation of fundamental changes in institutional responsibilities.

Thus, on one hand, the PPES program resources will complement the financial resources of ONAS, ARRU and municipalities for investments in land and shelter provision, upgrading of low income neighborhoods and related environmental services. On the other hand, the Program will support Technical Assistance and Training activities such as policy analysis and reform, institutional development and pilot projects aiming at implementing the GOT policy reform agenda for the provision and financing of urban environmental services.

B. Relationship to the USAID/Tunisia Assistance Management Plan (AMP) -

The current USAID/Tunisia strategic plan (the AMP, approved in 1991) pursues the goal of increased employment and income in an open market economy, with a portfolio of management training, financial markets, privatization and urban development. The active portfolio includes:

Project Title	LOP	PACD
o Private Enterprise Promotions	\$10 mil.	9/97
o Management Training for the Private Sector	18.5 mil.	9/97
o Development Studies Project	4.8 mil.	1/95
o HG 004D Municipal Finance	15 mil.(HG)	1/95

The Mission has recently undertaken a PRISM exercise to further define the AMP in terms of Strategic Objectives and Program Outcomes. The Mission has a single Strategic Objective: "Increased private sector participation in economic growth." This objective is supported by three Program Outcomes of which the second is "responsive policy and institutional environment for private provision of public services." The PPES program will directly support this Program Outcome and is thus integral to achieving the Mission's Strategic Objective.

The mission is currently developing a cross-cutting environmental strategy, and believes that a combined grant/HG program emphasizing private sector participation in the delivery of urban environmental services is an essential element for achieving the success of this strategy.

A relatively modest input of grant funds (\$3 million over five years) will lever \$50 million of HG resources. In a time of tight resources the proposed PPES Program will increase the development resources available to Tunisia by 200%, at a relatively low cost in terms of scarce grant funds.

II. PROJECT DESCRIPTION

A. Perceived Problem and Opportunity

Urbanization is currently having an adverse effect on the Tunisian environment in terms of both the living conditions in low income neighborhoods and the degradation of the natural environment due to unmanaged discharge of solid and liquid waste. In order to allow for greater development of urban areas on an environmentally sustainable basis, urban environmental services -- defined as those affecting water, sewer, storm sewers and solid waste - need to be improved in terms of both coverage and efficiency.

- o To reduce water pollution, the GOT National Sewer Authority (ONAS) estimates that almost \$1 billion will be necessary just to bring wastewater collection and treatment up to GOT standards, while only \$250 million is identified in the Eighth Plan (1992-1996).
- o To deal with solid waste, the Tunisian Environmental Protection Agency (ANPE) will have to oversee the development of twenty-three large scale landfills, one per Governorate, by the end of the Plan period, at cost of \$40 million.
- o To avoid new environmentally unsustainable clandestine housing settlements, Ministry of Housing officials estimate that 8,000 low income housing units will be necessary each year of the plan period, some 96 Ha. of newly serviced land annually. The financial requirements for such a program amount to \$560 million, while the Housing Bank has identified resources for only 2,200 units per year.
- o To improve environmental conditions in existing unplanned settlements, Ministry of Plan officials have identified 228 poor Tunisian neighborhoods in need of substantial upgrading or rehabilitation, at a cost of \$85 million.

Government of Tunisia resources for expanding and improving urban environmental services are limited. Therefore, GOT policy should aim for the highest possible efficiency and financial leverage in delivering these services. The expansion of the private sector role in urban environmental services delivery could improve efficiency and financial leverage if properly organized.

To date the Tunisian private sector plays a very limited role in the provision of urban environmental services. The GOT makes extensive and effective use of A&E firms and private contractors for technical services and state-financed construction. And, the 664-HG-004C land development finance window has shown that private developers will provide low income shelter and the accompanying environmental infrastructure. However, the private sector currently plays no role in facility financing, collection or treatment of solid or liquid wastes. Capital costs are born wholly by GOT foreign borrowing or the GOT budget. Tunisian municipalities recover little of the operating costs for solid waste services from the consumers while ONAS covers only half of its operating and maintenance costs through tariffs.

As a result, there have been insufficient resources to improve the environmental quality of informal low income neighborhoods in major Tunisian cities. Furthermore, development of new subdivisions affordable to low income Tunisians is not keeping up with demand due to a lack of land with access to environmental infrastructure (especially trunk sewerage). A recent evaluation of Tunisian private sector activity in low income housing (664-HG-004C) identified the lack of sewer extension as the principal constraint on developers seeking to build affordable housing. This situation has been only partly mitigated by ad hoc agreements between municipalities and private developers that have permitted low cost alternative sewage disposal systems on a project-by-project basis.

Emerging GOT thinking is to turn more to the private sector for environmental services. President Ben Ali convened a special cabinet meeting (CMR) to express his belief in greater private sector participation in urban services. During recent discussions, the Ministry of Environment stated its interest in potential private sector roles in owning and/or operating solid and liquid waste collection and treatment facilities, and in the need to adapt GOT environmental institutions and municipalities to be able to accomplish this goal.

The Tunisian environmental services industry is only in its infancy. ONAS indicates that there are currently only a few contractors capable of taking on the system operations and maintenance activities it would like to privatize, particularly in the rapidly growing secondary cities. One Tunisian firm was recently formed to bid on solid waste collection contracts that it believes will become the norm in Tunisia between now and the turn of the century. There are some excellent examples of municipality - private sector joint ventures for upper income land and industrial zone development, but none where the private sector has retained an ownership and/or operational role in the environmental infrastructure. Recycling is recognized by the GOT as an essential element of its emerging environmental policies but is currently practiced on only a modest scale.

A November 1992 USAID/Tunisia assessment of the private provision of urban services revealed that:

- o A broad range of opportunities exist for the private sector to participate in the provision of public services; and,
- o A vigorous and dynamic private sector is beginning to emerge;

Nevertheless, the study pointed out that there are substantial policy and institutional barriers to increased private sector participation in environmental services. These opportunities will only be realized when specific, key conditions are met:

- o Contract conditions are established that delineate the performance expected of private contractors and protect the public interest in case of deficient performance;
- o Regulatory conditions and financial incentives encourage participation and permit a return on investment commensurate with the risks associated with

starting out in an unproven sector; and,

- o Public sector agencies gain the capacity to manage contracts and to mobilize resources.

Both USAID/Tunisia and the GOT therefore believe that a policy reform focused program, as proposed for the PPES, combining both grant and capital resources, can substantially assist Tunisia as it graduates from AID assistance.

B. Project Goal and Purpose

The Goal of the program will be to support Tunisian economic growth and social stability through improved environmental and shelter conditions in urban areas, particularly low income neighborhoods. In this context, "shelter conditions" relate principally to the availability of adequate water, sewer and storm sewers infrastructure in low income residential areas (both existing and new).

The PPES Program will enable greater development of urban areas on an environmentally sound basis. Its Purpose is to improve the coverage and efficiency of urban environmental services through increased participation of the private sector.

C. Expected Accomplishments

The PPES Program will combine both HG capital assistance and grant funded technical assistance and training. Thus, there will be both tangible physical outputs and substantial policy and institutional development outputs.

On the Investment side, the proposed \$50 million of HG capital will benefit 34,000 households with:

Upgraded or rehabilitated environmental infrastructure in existing poorly served neighborhoods; and,

Environmental infrastructure in areas where new low income housing will be (or is being) built.

Eligible environmental infrastructure is defined as water, sewer, storm sewers and, to the extent permitted by HG authorizing legislation, solid waste treatment or transfer facilities. Based upon experience with prior programs in Tunisia, upgrading or rehabilitation can be accomplished for approximately \$1800 per household. New infrastructure can be installed for roughly \$1200 per household. Assuming an even split between these two types of investments, the \$50 million of HG capital can be expected to serve some 34,000 existing and new households, with a total population of 180,000, during the life of the program.

On the policy and institutional side, an indicative list of expected outcomes to be produced by the program includes:

1. New business opportunities for private sector companies to provide urban environmental services of various kinds;
2. Cost savings/efficiency gains for more affordable environmental services;
3. Increased investment capital for extension of urban environmental services through capital market funding and enhanced cost recovery;
4. Increased capacity of municipal governments, the private sector and the environmental community to address environmental issues; and,
5. GOT environmental institutions adapted for their new regulatory roles and relationships with the private sector and municipalities.

The feasibility of achieving these outcomes is based on USAID/Tunisia assessment that the GOT is already strongly committed to increasing private sector involvement in urban environmental services and extending the coverage of these services to increasingly benefit low income households.

D. Project Outline and How it Will Work

1. Program Strategy

To respond to the problems and opportunities outlined above, USAID/Tunisia is designing a \$53 million combined HG-Grant program to support GOT efforts to improve urban environmental services through increased involvement of the private sector. Recognizing that it will take several years to create an enabling structure of policies, institutions, and incentives for greater private sector participation HG resources will be used to supplement the GOT urban environmental improvement budget during the interim. Grant funded assistance will help the GOT analyze its alternatives and operationalize the new structure. This new policy/institutional structure will help the GOT to reduce the budgetary burden for environmental services to manageable levels while assuring that service delivery through the private sector is able to keep up with demand in a rapidly urbanizing economy.

2. Program Structure

The program will have two main components. The Policy Component will provide \$3 million of USAID grants to assist the GOT with its private sector oriented policy development, reform of urban environmental institutions, and technical assistance for implementation of pilot public-private joint ventures. The Capital Component will provide \$50 million of Housing Guaranty (HG) loans for shelter related environmental infrastructure, disbursed in tranches of \$10 million per year as budget support for GOT urban environmental improvement programs benefitting low-income households. The annual HG disbursement will be conditioned on adequate progress having been made by the GOT on implementation of the reforms in the Policy Component. Progress will be assessed annually through a Program Review process conducted by USAID and the

GOT Ministries and agencies involved in the program.

a. The Policy Component

Working together, the GOT and AID will define a Policy Action and Cooperation Timetable (PACT), an implementation plan for achieving the program purpose. The PACT will consist of the following:

- o A set of specific policy and institutional reform Objectives;
- o The Actions Steps that will be necessary to pursue the Objectives;
- o A set of Indicators and Benchmarks (with specific target dates) to be used in measuring progress towards the Objectives; and,
- o A grant-funded Cooperation Program to assist the GOT to formulate and implement the sector and institutional reforms necessary to achieve the Objectives.

While discussions with the GOT have only recently begun and further revision will be necessary, a preliminary statement of Objectives and Action Steps for a PPES Policy Action and Cooperation Timetable follows (See Annex 1 for an illustrative PACT that includes Benchmarks and grant funded Cooperation Activities):

OBJECTIVE 1: Increased private sector participation in the delivery of environmental services to expand coverage in areas of urban growth.

ACTION STEPS:

- 1.A: Modify contracting procedures for solid and liquid waste services adapted to the needs of these services and the needs of entrepreneurs, particularly SME's.
- 1.B: Establish incentive structures to encourage entry of private firms, especially SME's, into delivery of environmental services.
- 1.C: Solicit private sector interest in delivery of environmental services.
- 1.D: Establish support systems to facilitate the entry of private firms, particularly SME's, into the delivery of environmental services.
- 1.E: Establish demonstration private sector environmental services projects in pilot municipalities.

OBJECTIVE 2: Increased private sector participation in the financing of environmental services through enhanced cost recovery.

ACTION STEPS:

- 2.A: Introduce bonds and/or other financial instruments for financing the capital costs of urban environmental infrastructure.
- 2.B: Establish improved cost-recovery policies that increase recovery of capital and operating costs for environmental services from beneficiaries.
- 2.C: Establish subsidy policies that are transparent and restrict subsidies to specific target groups.

OBJECTIVE 3: Central government and municipal environmental services agencies effectively and efficiently regulating the private sector delivery of environmental services.

ACTION STEPS:

- 3.A: ONAS regulating its private sector partners in waste water collection and treatment.
- 3.B: ANPE regulating the municipalities and the private sector in the management of solid waste.
- 3.C: Ministry of Public Works and Housing promoting the private sector provision of low income shelter through effective regulation and Housing Bank credit.
- 3.D: Municipalities effectively regulating their private sector partners in the provision of environmental services.

OBJECTIVE 4: Increased popular participation in environmental awareness and policy discussion processes.

ACTION STEPS:

- 4.A: Encourage environmental NGO's.
- 4.B: Create opportunities for dialogue between government agencies and the NGO environmental community on critical environmental issues.
- 4.C: Engage NGO's in a pilot municipality in the implementation of environmental management activities.

The Policy Action and Cooperation Timetable will be the heart of the program. HG loans will be disbursed based upon the achievement of adequate progress on benchmarks and indicator levels in the PACT. These loans will then provide budget support

for environmental infrastructure benefitting low income families as agreed to by the GOT and AID. Grant funded TA and training would be focussed on helping the GOT to implement the PACT and achieve its objectives.

b. The HG Capital Component

The HG loans will be provided to the GOT as budget support for its on-going urban environmental improvement programs, according to an agreed upon Capital Investment Plan. These ARRU, ONAS, Housing Bank and municipal programs will improve existing low-income settlements (e.g. provision of sewer and storm sewers services in poor neighborhoods) or extend environmental services (water, sewer, storm sewers) to new areas targeted for private development of low income subdivisions. In this way the HG budget support will be linked to the same institutions that will be responsible for implementing the policy changes, institutional reforms and pilot projects in the PACT (e.g. Ministry of Environment, ONAS, ARRU, the Housing Bank and municipalities). This linkage will provide a significant incentive for these institutions to achieve the policy and institutional reform benchmarks that trigger HG disbursements. At a broader level, this linkage will help assure Ministry of Plan attention to the program as a flexible source of resources for implementation of the Tunisian Eighth Five-Year Plan.

Disbursement of the annual tranches of \$10 million will depend on the results of a Program Review conducted jointly each year by USAID and a GOT interagency working group coordinated by the Ministry of Plan. The Program Review will be based on the report of an external evaluation team. The Program Review will:

- o Assess progress on the PACT;
- o Reaffirm or adjust the PACT for the next year;
- o Confirm expenditures on the Capital Investment Plan; and,
- o Establish an Investment Plan for the next year.

Progress will be assessed in terms of comparing planned versus actual achievement of benchmarks in the PACT. If USAID determines this progress to be satisfactory, a HG disbursement will be approved. If not, USAID has the option to delay a disbursement until progress improves.

3. Technical Assistance and Training

A \$3 million Technical Assistance and Training grant will assist the GOT to implement the PACT. Annex I illustrates how grant resources are directly linked to helping the GOT to achieve the Action Steps and Objectives of the PACT. The grant will support three types of activities:

- a. Policy Analysis and Development - Policy studies and planning, for example, on: Cost recovery for environmental capital investments; mobilization of private capital for urban environmental services and low income shelter development; identification and reduction of barriers to entry by SMEs in urban environmental services delivery, etc;

- b. Institutional Development - eg, Preparation and implementation of long-term strategies to adapt ONAS and the National Environmental Protection Agency; development of technical capacity for managing private provision of urban environmental services in pilot municipalities; development of long-term infrastructure financing capabilities in the banking system; training for technical and management staff of private environmental services companies; etc.
- c. Pilot Projects - eg, Privately owned and/or operated solid waste services; privately owned and/or operated industrial and residential sewer networks; municipality - private developer joint ventures for environmentally sound low-income subdivisions; etc.

4. Institutional roles and Responsibilities

Four broad institutional roles have been identified for the PPES Program. Program Execution; Private Sector Involvement, Program Coordination; and, Program Support.

Program Execution: The Ministry of Environment and Land Use Planning (MOE) will serve as the chief implementing ministry, supervising the program activities of its constituent entities as follows:

- The National Sewer Authority (ONAS) for wastewater policy and institutional development and major portions of the HG Investment Plan;
- The National Environmental Protection Agency (ANPE) for solid waste policy and institutional development; and,
- The National Physical Planning Department (DAT) for urban land development standards and processes.

Private Sector Involvement: The program will engage the Tunisian private sector at four levels:

- o Private Developers of low income shelter;
 - o Private organizations of a scale to own and/or operate solid and liquid waste collection and treatment facilities (perhaps in conjunction with US partners);
- o The emerging Tunisian private financial market; and,
- o NGO's oriented towards community development and/or the urban environment.

Private developers and solid and liquid waste management firms will participate in joint ventures with municipalities and become service contractors to various GOT entities. The private financial market will become a source of capital funding for environmental services investments. NGOs will participate in Information, Education and Communication (IEC) activities critical to the public acceptance of sustainable environmental policies and practices.

Program Coordination: The Ministry of Plan (MOP) will serve as coordinator of the PPES Program, with primary responsibility for policy planning and program monitoring. It will direct the development of the PACT, monitor its implementation and conduct the joint AID-GOT Program Reviews that will precede and justify each HG disbursement. It will also assemble the HG Investment Plan, which will serve to liquidate each disbursement. It will chair an appropriate interagency working group to accomplish these tasks, notionally consisting of the Ministries of Plan, Environment, Finance, Interior, Public Works and Housing, UTICA (the private sector), and the National Federation of Tunisian Cities (elected officials).

The MOP is appropriate for the Program Coordination role. President Ben Ali recently centralized the responsibility for all GOT privatization activities in MOP, an indicator of its key role in PPES. It is also the GOT entity responsible for developing and monitoring the implementation of the Eighth National Development Plan, including its substantial urban environmental policy and investment component.

Program Support: At least two ministries will provide policy and implementation support:

- o The Ministry of Public Works and Housing will support the implementation of the program through its Housing Bank (financing for Private Developer - Municipality joint ventures) and its Urban Upgrading Agency (ARRU), which will implement cost recovery and other policies to be developed during the program and complete significant portions of the HG Investment Plan.
- o The Ministry of Interior will play a role in facilitating the participation of target municipalities and the implementation of private sector pilot projects for environmental service delivery.

III. FACTORS AFFECTING PROJECT SELECTION AND FURTHER DEVELOPMENT

A. Social considerations

A recent survey of living conditions in low-income urban neighborhoods (Study of Unplanned Settlements in Tunisia, URBACONSULT, December 1992) highlighted unhealthy conditions and lack of infrastructure as the principal problems identified by 64% of the residents in these areas. The same study showed that while 72% of residents have water connections, and 87% have electricity connections, only 27% were connected to sewers. From this it can be concluded that the lack of sewerage and storm sewers is the most fundamental problem affecting living conditions in the poor urban neighborhoods of Tunisia. At the same time, the private provision of housing affordable to low-income households is principally constrained by the absence of sewers in the urban periphery where developers are able to build at lowest cost (Evaluation of Project 664-HG-004C, S. Kanoun, December 1992).

This gap in basic urban environmental services is the result of a shortage of funds and

management capacity in municipalities and ONAS. Stretched to its limits, the public sector simply can not fully respond to the demand for services. The urban poor suffer the most in these circumstances.

The proposed program will have a positive impact on this situation in two ways. First, the policy and institutional reform agenda embodied in the PACT will address the root cause of the problem by augmenting public sector resources (capital and management capacity) with private sector resources. Creating a climate that attracts private participation in urban environmental services levers public resources. Limited public resources can then be better targeted to addressing the needs of the urban poor. Second, while the new public-private partnership system is being established, HG capital will help bridge the financing gap for priority environmental improvement programs that are targeted to serving the urban poor. This dual approach will foster a more sustainable system of service delivery while directly addressing equity issues.

The direct beneficiaries of the \$50 million HG capital component of the program will be approximately 180,000 residents of low-income unplanned settlements who will gain access to sewerage and storm sewer systems. Survey data indicates that 93% of the residents of these settlements have family income below the urban median of 320 dinars/month, with the greatest share (38%) earning between 60 to 120 dinars/month (URBACONSULT, op.cit.). Indirect beneficiaries of the HG component will be private business owners who will benefit from increased business opportunities in environmental service delivery and production of affordable housing. The \$3 million grant component of the program will directly benefit public policy makers, mayors, entrepreneurs and environmental NGO's who will have their capabilities enhanced by technical assistance and training.

Participation in development will be encouraged by the program through the NGO component of the PACT, as well as by the creation of public-private partnerships for environmental services. Neighborhood improvement projects undertaken by municipalities, ARRU and ONAS will also feature direct participation by beneficiaries in the planning and execution.

The feasibility of this program will depend on three factors:

- 1) The willingness and ability of the public sector to work in new types of partnerships with the private sector;
- 2) Sufficient profitability in the environmental service delivery business to attract private entrepreneurs; and,
- 3) Willingness of the central government to decentralize sufficient authority to municipal governments to enable them to play an effective role in environmental service management.

All of these factors will be reviewed in greater depth during program design. However, the current indications are positive on all three. The MOE is actively seeking means to create partnerships with the private sector. A tender for private collection of solid waste

in Sfax has attracted substantial private sector interest. Decentralization is a core element of the Tunisian Eighth Plan and is receiving concerted attention from the Ministry of Interior. Thus on initial review, the conditions appear good for the feasibility of the program.

B. Economic Considerations

At this stage of Program development, it is not possible to quantify the benefits of the project nor, hence, undertake a benefit-cost analysis. However a recent RTI assessment provides a qualitative indication of the economic benefits of the program.

Increased participation of the private sector in the delivery of environmental services will have an employment impact at the macro-economic level. In the short run there will be a transfer of a significant number of jobs from the public to the private sector. In the long run there will be a net addition to private sector employment in urban and municipal services.

At the micro-economic level, expanding private sector participation in the delivery of urban services will have a significant impact on small and medium scale business development and will increase the efficiency and effectiveness of the services delivered by improving the technical and the managerial capacity of SMEs. Economic benefits of an expanded network of environmental infrastructure will also accrue to the cities and low-income neighborhood where they are built.

The increased mobilization of private capital in the financing of environmental infrastructure will contribute at the macro-economic level to the development of the financial market. Direct access to private capital will encourage the national service utilities to become more accountable and transparent through improved cost recovery and better targeting of subsidies.

During PP design, USAID will attempt to quantify these benefits and compare them to program costs. However, the way which this program is designed to leverage both GOT and private investment suggests that it is likely to be highly cost effective.

C. Relevant Experience with Similar Projects

USAID/Tunisia has extensive experience with the design and implementation of policy oriented privatization and low income shelter/urban programs. USAID/Tunisia has assisted the GOT to privatize 38 companies with a value of \$130 million and to create a fully functioning stock exchange (The Tunisia Bourse) through its recently closed out Technology Transfer and Private Sector Development Project.

In addition, the existing HG programs in Tunisia have laid the foundation for the proposed PPES program.

The \$48 million HG 004B program has served some 30,000 low income Tunisian

families with sewer upgrading or serviced building plots, while achieving important policy and institutional reforms.

The \$15 million HG 004C program has assisted the GOT to convert a non-sustainable contract savings program into a private sector oriented Housing Bank. Its Private Developer loan window, financing 120 Ha. of private sector land development, has demonstrated that private developers can work with municipalities to produce low income housing with affordable environmental infrastructure.

The \$15 million HG 004D program is assisting the GOT to restructure its municipal finance agency and implement pilot reforms in financial and technical management at the municipal level. Its lessons will undoubtedly inform the infrastructure financing aspects of the PPES program.

D. Proposed Borrower/Grantee and/or Implementing Agency

The GOT will be the borrowing entity for the HG loans, which are loans negotiated and borrowed on the private US capital markets, and bearing a "Full Faith and Credit" US Government guaranty. The GOT will bear the Foreign Exchange risk. As is typically the case, the Ministry of Plan will be the grantee and coordinate the grant portion of the assistance. (See also section II.D.4 "Institutional Roles and Responsibilities" above for additional discussion of the implementing agencies.)

E. AID Support Requirements and Capability

A USAID/Tunisia Project committee has been established to guide the design and implementation of the PPES Program. The RHUDO/NENA serves as the implementing division for the USAID/Tunisia shelter and urban portfolio and will manage the proposed PPES program. The RHUDO currently has two USDH personnel stationed in Tunis, along with two USPSCs who will be available to help manage the implementation of this program. A grant-funded FSN/PSC Program Specialist will be recruited to work exclusively on the PPES Program.

F. Estimated Costs and Methods of Financing.

Housing Guaranty loans will be used to finance the capital budget support element of the program up to an amount of \$50 million. This financing will cover approximately 50% of the projected costs of environmental improvement programs in low-income neighborhoods currently planned by ARRU, ONAS, and municipalities over the Eighth Plan period 1992-1997. The other 50% of these programs costs will be borne by the GOT, and represents a major contribution to the overall PPES investment.

The grant portion of the program will fund the "Cooperation Activities" identified in the PACT. Although these activities are only indicative at this stage of program design, they are derived from analysis of the PACT Objectives and Action Steps they will support. As

such they represent an accurate estimation of the order of magnitude of grant financing needed to support the implementation of the program's policy reform agenda. The figures for each organization listed in the table below are derived from assigning PACT "Cooperation Activities" to an appropriate organizational unit and totalling each unit's support requirements. In addition, approximately \$150,000 of grant resources will be used to retain an FSN/PSC to assist the Mission in implementing the program. Based on these assessments a preliminary distribution of HG and grant inputs by institution is provided in Table 1.

Table: 1 Estimated Costs (\$000)

664-HG-005 Loans Proposed Funding	USAID Contribution	GOT Contribution
Capital Budget Support for:		
1. ARRU	25,000	25,000
2. ONAS	15,000	15,000
3. Municipalities	<u>10,000</u>	<u>10,000</u>
TOTAL	50,000	50,000
664-0356 Grant Proposed funding Technical Assistance & Training for:		
1. Ministry of Environment	800	300
2. Ministry of Plan	450*	200
3. Ministry of Finance	200	---
4. Ministry of Public Works and Housing	150	---
5. Ministry of Interior	150	50
6. Private Sector Firms	150	150
7. Environmental NGO's	150	---
8. Pilot Municipalities	800	300
FSN/PSC Program Specialist	<u>150</u>	---
TOTAL	3,000	1,000

* Note: Ministry of Plan assistance includes \$300,000 for establishing and running a Program Performance Monitoring System to measure the impact of the program.

G. Design Strategy

USAID/Tunisia will use a PP design support team, to be contracted through an AID IQC Delivery Order, to conduct the analyses and prepare a draft of the PP. This team will be comprised of an economist, environmental institutions specialist, municipal development specialist and private sector specialist. Tunisia specific expertise will also be included.

USAID/Tunisia has requested \$100,000 of PD&S funding from the NE Bureau for the design of the PPES Program (92 Tunis 9466, 92 Tunis 10623). The design will be carried out in the second and third quarters of FY 93. Authorization of the program is planned on or before August 1993.

USAID/Tunisia requests Near East Bureau approval to authorize this program in the field, based upon Bureau guidance related to the approval of this PID.

H. Recommended Environmental Threshold Decision

The proposed PPES is eligible for a Categorical Exclusion from an IEE under 22 CFR 216.2(c). (Supporting information is provided in Annex 3.) First, AID does not have, nor does it seek, knowledge or control over the specific activities for which AID Housing Guaranty financing is being provided per 216.2(c)(1)(ii). HG loans will provide untied US dollars to the Tunisian Central Bank, the Tunisian Dinar equivalent of which will become GOT budget support. The GOT, for its part, will be required to demonstrate that it has expended the Tunisian Dinar equivalent of the HG loans for broadly defined categories of activities. AID will not be engaged at the level of specific projects. Second, PPES will only undertake programs for which exclusion is provided under 216.2(c)(2) - i.e.,

- (i) -TA and Training;
- (iii) -Analyses, studies, workshops and meetings;
- (x) -Capital support for intermediate credit institutions; and,
- (xv) -Activities which involve the application of design criteria or standards developed and approved by AID.

Therefore, the USAID/Tunisia Mission Director has determined that a Categorical Exclusion from the procedures of 22 CFR 216.3 is applicable.

This Categorical Exclusion notwithstanding, it should be emphasized that the PPES is at its core an environmental improvement program. The Program will improve the coverage and efficiency of environmental services through increased participation of the private sector. In parallel, it will improve the GOT's capacity to monitor and regulate the performance of its environmental services, whether provided by the public or private sector. (See PACT Objective 3, Annex 1). The results of PPES will be positive for the Tunisian

urban environment.

I. AID Policy Issues

1. Funding for the Grant Component

The most important issue governing the development of the proposed PPES program is the availability of grant funding for the Cooperation Activities in the PACT. USAID/Tunisia currently has a portfolio of three projects (PEP, MTPS, and DSP) with a combined LOP of \$33.3 million. Of this amount, \$28.4 million is unobligated "mortgage" as of the beginning of FY 93. In FY 93 the Mission anticipates a \$5 million OYB and deob/reob authority of approximately \$1.9 million. In FY 94 and the out-years the Mission OYB is not expected to be greater than \$5 million per year and the Mission will have no more old projects from which to draw deob/reob funds. Thus the maximum foreseeable grant resources for the five-year period FY 93-97 (inclusive) are \$26.9 million against a current mortgage of \$28.4 million. This leaves a shortfall of \$1.5 million before considering the \$3 million needed to fund the PPES program. The shortfall will be even greater if the OYB is less than \$5 million in FY 94 or the out-years.

In these circumstances, the Mission will need to receive grant resources outside of its annual OYB in order to undertake the PPES program. It should be borne in mind that the \$3 million of grant resources will leverage \$50 million of HG loans from the PRE Bureau which will have an important effect on maintaining a productive Tuniso-American economic assistance relationship. It will also enable AID to "harden" the terms of its overall assistance (1/3 grant, and 2/3 market rate loans) as is appropriate for Tunisia as it approaches ADC status.

The level of grant funding proposed for PPES is probably estimated on the low side. The PID for the "Morocco Urban Infrastructure, Land Development and Financing Program" (608-HG-004/0221) proposes \$10 million of grant resources to lever \$100 million of HG loans. This 10 to 1 ratio is more appropriate and consistent with recent experience in other countries (e.g. Indonesia, Pakistan, Philippines). Indeed, the initial assessment of AID funding requirements for PACT Cooperation Activities exceeded \$4 million even though it never included activities that would take Tunisians to the U.S. to observe how we organize and manage the private delivery of environmental services (a major lost opportunity). USAID/Tunisia has reduced this original estimate by more than 25% to arrive at the \$3 million figure previously discussed "in principal" with AID/Washington, but this is truly a bare bones budget. Each piece of it is integral to the support of key reform actions in the illustrative PACT.

Considering the potential positive environmental impact of the PPES program, its importance to the Mission's accomplishment of its Strategic Objective and the degree that it will lever HG loans for Tunisia, the Mission believes that it is in AID's interest to commit itself to finding funds to finance the grant component of the Program.

2. Debt Risk

Tunisia is currently ranked as a category __ country for debt risk. (It requires about 10% subsidy.) Thus it is considered a relatively good country to undertake HG operations. The recent praise by the IMF for Tunisia's implementation of structural adjustment reform, and the GOT's pledge to make the dinar freely convertible in 1993 suggest that Tunisia will continue to manage its external debt and payment responsibilities prudently in the foreseeable future. RHUDO/NENA knows of no reason that Tunisia's debt risk classification is likely to be downgraded in the immediate future.

Attachments:

- Annex 1 Illustrative Policy Action and Cooperation
Timetable (PACT)
- Annex 2 Log Frame
- Annex 3 Environmental Threshold Decision

ANNEX 1

PRIVATE PARTICIPATION IN ENVIRONMENTAL SERVICES
664-0356/HG-005

POLICY ACTION AND COOPERATION TIMETABLE
(P.A.C.T.)

OBJECTIVE 1: Increased private sector participation in the delivery of environmental services to expand coverage in areas of urban growth.

Indicators: Percentage of urban households served by:

- (1) water supply
- (2) sewage systems
- (3) drainage systems
- (4) solid waste collection

Percentage of solid waste:

- (1) collected
- (2) disposed by private companies.

ACTION STEPS:

1.A: Modify contracting procedures for solid and liquid waste services adapted to the needs of these services and the needs of entrepreneurs, particularly SME's.

Benchmarks:

- 1.A. (1) Diagnostic completed: 12/93.
- 1.A. (2) Model procedures and contract developed: 6/94.
- 1.A. (3) Model procedure/contract tested in one municipality: 6/95.
- 1.A. (4) Model adopted in 5 other municipalities: 3/98.

Cooperation Activities:

- 1.A.I: Analysis of problems with existing contracting procedures and development of model procedures and contract. Diagnostic: T.A. = \$50,000
Model: T.A. = \$60,000. TOTAL = \$110,000.
- 1.A.II: Assistance to a pilot municipality to test and introduce model procedures and contract: T.A. = \$100,000.

1.B.: Establish incentive structures to encourage entry of private firms, especially SME's, into delivery of environmental services.

Benchmarks:

- 1.B. (1) Potential incentives identified: 12/93
- 1.B. (2) Incentive policy adopted: 12/94
- 1.B. (3) Incentives operational: 3/95.

Cooperation Activities:

- 1.B.I: Study to identify a variety of incentives for private delivery of environmental services: T.A. = \$50,000.
- 1.B.II: Policy analysis (cost/benefit, administrative feasibility, fiscal impact, etc.) to structure up to 3 incentive packages: 3 X \$25,000 T.A./package = \$75,000.

1.C: Solicitation of private sector interest in delivery of environmental services

Benchmarks:

- 1.C. (1) MOE national conference on private sector business opportunities in delivery of environmental services: 9/94.
- 1.C. (2) Roundtable on a specific business opportunity in solid waste collection and/or disposal: 12/94.
- 1.C. (3) Roundtable on a specific business opportunity in waste water system operation: 3/95
- 1.C. (4) Second MOE national conference: 9/95
- 1.C. (5) Third MOE national conference: 9/96
- 1.C. (6) Fourth MOE national conference: 9/97.

Cooperation Activities:

- 1.C.I: Participation by U.S. experts and practitioners in the conferences and roundtables: 6 events x 2 experts/events X \$5,000/expert = \$60,000.

1.D.: Establishment of support systems to facilitate the entry of private firms, particularly SME's, into the delivery of environmental services.

Benchmarks:

- 1.D. (1) Loan guaranty facility established: 3/94.

- 1.D. (2) Training courses available: 12/94.
1.D. (3) Consultancy services available: 6/95.

Cooperation Activities:

- 1.D.I: Analysis of support systems needed by private (SME) firms to enter into delivery of environmental services: T.A. = \$50,000.
- 1.D.II: Curriculum development and training-of-trainers for up to 3 courses on management of specific environmental services: 3 courses X \$75,000/course = \$225,000.
- 1.D.III: Assistance in establishing local environmental service management consultancies: T.A. = \$100,000.
- 1.E.: Establish demonstration privatization projects in environmental services in pilot municipalities.

Benchmarks:

- 1.E. (1) Waste water operations and maintenance (O&M) privatized in one site, by June 1996;
- 1.E. (2) Waste water O&M privatized in five additional communities, by June 1997.
- 1.E. (3) Waste water collection and treatment (BOO) privatized in one community, by June 1997.
- 1.E. (4) Waste water BOOs institutionalized in five additional communities, by June 1998.
- 1.E. (5) Integrated private sector Solid Waste Management system (SWM) established in one municipality, by June 1996.
- 1.E. (6) Integrated private sector SWMs institutionalized in five additional municipalities, by June 1997.
- 1.E. (7) One private developer-municipality land development joint venture established, by June 1994.
- 1.E. (8) Private developer-Municipality joint ventures established in five additional sites, by June 1995.

Cooperation Activities:

- 1.E.I TA&T ONAS to implement waste water O&M demonstration projects; TA = \$75,000 for pilot.
- 1.E.II. TA&T to plan, implement and evaluate waste water BOO demonstration projects: TA = \$150,000 for pilot.
- 1.E.III. TA&T to ANPE, municipality and private sector to plan, implement and evaluate integrated SWM demonstration; TA = \$300,000 for pilot.

- 1.E.IV. TA&T to MPWH, municipality and private developers to plan, implement and evaluate land development joint venture demonstrations; TA = \$100,000 for pilot; \$100,000 for five additional sites.

OBJECTIVE 2: Increased private sector participation in the financing of environmental services through enhanced cost recovery.

Indicators: Percentage of new investment provided by the private sector in:

- (1) water supply
- (2) sewage systems
- (3) drainage systems
- (4) solid waste collection.

Percentage of (a) capital costs, and (b) operating costs recovered from beneficiaries by:

- (1) SONEDE
- (2) ONAS
- (3) A municipality for solid waste.

ACTION STEPS:

2.A.: Introduce bonds and/or other financial instruments for financing the capital costs of urban environmental infrastructure.

Benchmarks:

- 2.A. (1) Completed assessment of options for capital financing: 6/94.
- 2.A. (2) Policy on capital financing adopted by MOF, Central Bank, MOP, etc.: 6/95
- 2.A. (3) First capital financing launched onto the market 6/96.

Cooperation Activities

2.A.I: Policy analysis (cost/benefit, administrative feasibility, fiscal impact) of options for raising private capital for environmental infrastructure in Tunisian financial markets: TA = \$150,000.

2.A.II: Assistance in the design and launching of new financial instruments: TA = \$150,000.

2.B: Establish improved cost-recovery policies that increase recovery of capital and operating costs for environmental services from beneficiaries.

Benchmarks:

2.B. (1) Monitoring systems established to measure costs and revenues in ONAS and a pilot municipality: 6/94.

2.B. (2) Action plans adopted to reduce costs and/or increase revenues in:

ONAS	3/95
Municipality:	6/95

2.B. (3)-(etc.) Annual cost recovery targets achieved based on organization's Action Plans: 12/95-12/98.

Cooperation Activities

2.B.I: Assistance to ONAS to establish a monitoring system and develop an Action Plan: TA = \$100,000.

2.B.II: Assistance to a pilot municipality to establish a monitoring system and develop an Action Plan: T.A. = \$200,000.

2.C: Establish subsidy policies that are transparent and restrict subsidies to specific target groups.

Benchmarks:

2.C. (1) Current types, levels and beneficiary distribution of subsidies identified in relation to wastewater, and (one city only) solid waste services: 6/94.

2.C. (2) Transparent policies on subsidies and target groups formulated for:

wastewater	3/95
Solid Waste (one city)	6/95.

2.C. (3) New subsidy policies in operation for:

Wastewater	3/96
Solid Waste (one city)	6/96.

Cooperation Activities:

2.C.I: Subsidy analysis study for waste water and (pilot city) solid waste services: TA = \$150,000.

2.C.II: Policy analysis (cost/benefit, administrative feasibility, fiscal impact) of options for making transparent and targeted:

Wastewater: T.A. = \$ 100,000
Solid Waste (pilot city): T.A. = \$ 70,000

OBJECTIVE 3: Central government and municipal environmental services agencies effectively and efficiently regulating the private sector delivery of environmental services.

Indicators: Percent of households served by the private sector.

ACTION STEPS:

3.A.: ONAS regulating its private sector partners in waste water collection and treatment.

Benchmarks:

- 3.A. (1) Implementation of revised national standards permitting alternative waste water treatment processes, by June 1994;
- 3.A. (2) Codification of municipal and private sector waste water performance standards, by January 1995;
- 3.A. (3) Establishment and staffing of ONAS Performance Monitoring Unit (PMU), by January 1995; and,
- 3.A. (4) PMU trained and operational by January 1996.

Cooperation Activities:

- 3.A.I: TA to identify revised treatment standards, TA=\$50,000;
- 3.A.II: TA to develop performance standards and monitoring tools, TA=\$50,000;
- 3.A.III: TA&T to Performance Monitoring Unit, TA=\$50,000.

3.B.: ANPE regulating the municipalities and the private sector in the management of solid waste.

Benchmarks

- 3.B. (1) Establishment of national policy and plan for private participation in solid waste services, by June 1994;
- 3.B. (2) Codification of performance standards for solid waste collection and treatment, by January 1995;
- 3.B. (3) Establishment and staffing of a Performance Monitoring Unit, (PMU) by January 1995; and,
- 3.B (4) PMU trained and operational by January 1996.

Cooperation Activities:

- 3.B.I: Policy analysis and strategy formulation, TA=\$100,000.
- 3.B.II: TA to develop performance standards and monitoring tools, TA=\$50,000
- 3.B.III: TA&T to Performance Monitoring Unit, TA=\$50,000

3.C.: Ministry of Public Works and Housing promoting the private sector provision of low income shelter through effective regulation and Housing Bank credit.

Benchmarks:

- 3.C. (1) Implementation of revised national low income shelter strategy for greater participation by municipalities and private developers; by June 1994;
- 3.C. (2) Revision of regulatory processes - eg, sub-division, construction approval and construction monitoring - to reduce inefficiencies and stimulate municipality - private sector joint ventures, by January 1995.

Cooperation Activities

- 3.C.I: TA to assess and revise MPWH low income shelter strategy, TA = \$75,000
- 3.C.II: TA to assess and revise the regulatory processes, TA = \$75,000.

3.D.: Municipalities effectively regulating their private sector partners in the provision of environmental services.

Benchmarks:

- 3.D.(1): Performance standards for solid waste and wastewater management available to interested municipalities, by January 1995.
- 3.D.(2): TA&T in performance monitoring being offered to interested municipalities, by January 1996.

Cooperation Activities:

- 3.D.I: TA to develop performance standards, TA=\$50,000
- 3.D.II: Courses development and TOT, TA=\$60,000

OBJECTIVE 4: Increase popular participation in environmental awareness and policy discussion processes.

Indicators: Increased consensus/acceptance of GOT environmental policy measures - eg, Recycling, composting, cost recovery, etc..

ACTION STEPS

4.A: Encouragement of environmental NGO's.

Benchmarks:

- 4.A.(1): Establish an MOE-NGO "partnership" policy at the national level: 3/94

4.A.(2)-(4): To be determined based on the partnership
policy: 3/95-3/98

Cooperation Activities:

4.A.I: Small grants to national environmental NGOs to launch innovative
"partnership" activities: Grants \$100,000.

4.B: Create opportunities for dialogue between government agencies and the NGO
environmental community on critical environmental issues.

Benchmarks:

4.B. (1) First national NGO-MOE Conference on environmental
policy: 3/94.

4.B. (2)-(5): Second-Fifth national NGO-MOE Conferences on
environmental policy: 3/95-3/98.

Cooperation Activities

4.B.I. Support for participation of U.S. environmental NGO
leaders in the Tunisian conferences: 5 events X 1
participants per event X \$5,000/p = \$25,000.

4.C.: Engage NGO's in a pilot municipality in the implementation
of environmental management activities.

Benchmarks:

4.C. (1): Interested local environmental NGO's
identified: 3/94

4.C. (2): Participation program designed: 9/94

4.C. (3): Participation program in operation: 12/94

4.C. (4)-(etc.): To be determined based on program:
12/95-12/98.

Cooperation Activities

4.C.I: Assistance to identify local NGO's and their interest/capability to participate
in activities: T.A. = \$25,000.

4.C.II: Assistance to develop and launch a participation program: T.A. = \$25,000.

PRIVATE PARTICIPATION IN ENVIRONMENTAL SERVICES
(664-0356/HG-005)

I. RECOMMENDED ENVIRONMENTAL DETERMINATION

1. Project Location: Tunisia, North Africa
2. Project Title: Private participation in Environmental Services (664-0356/HG 005)
3. Funding: FY1993-1998 \$3 million Grant
\$50 million Housing Guaranty
4. Action Recommended:

Grant: Categorical exclusion under AID Regulation 216.2(c)(2)(i)and(iii).
HG: Categorical exclusion under AID Regulation 216.2(c)(ii) and 216.2(c)(2)(x) and (xv).

II. SUPPORTING INFORMATION

A. DESCRIPTION OF THE ACTIVITIES TO BE UNDERTAKEN IN PROJECT

The purpose of this project is to improve the coverage and efficiency of urban environmental services through increased participation of the private sector. The project will involve a combination of Housing Guaranty(HG) loans for shelter related environmental infrastructure; and USAID grants for private sector oriented policy development, reform of urban environmental institutions, and technical assistance for implementation of pilot public-private joint ventures.

A \$50 million five-year HG component is envisioned. The HG funds will be disbursed--for use by the Government of Tunisia for budgetary support--in relation to the achievement of a substantial series of policy and institutional reform measures which will be determined prior to the commencement of the project. AID does not have knowledge of or control over the details of the specific activities that have an effect on the physical and natural environment for which HG financing is provided by AID as budget support. Approximately \$3 million of TA funds will also be necessary to assist the GOT to formulate

and implement the policy and institutional reforms.

Among the program outcomes expected are (a) new business opportunities for private sector companies to provide urban environmental services of various kinds; (b) cost savings/efficiency gains for more affordable environmental services; (c) increased investment capital for extension of urban environmental services through capital market funding and enhanced cost recovery; (d) increased capacity of municipal governments, the private sector and the environmental community to address environmental issues; and (e) GOT environmental institutions adapted for their new regulatory roles and relationships with the private sector and municipalities.

The budgetary support provided by the HG loan guaranty procedure will assist the GOT to implement improvements to environmental infrastructure principally benefitting the urban poor. On-going, environmentally proven programs by GOT organizations will install, upgrade, or rehabilitate small scale water and sewerage networks in up to 220 low-income urban neighborhoods. In addition, some of the budgetary support may be provided to the Tunisian Housing Bank (an intermediate credit institution) as capital for loans to private developers constructing shelter (including related environmental infrastructure) affordable to low-income families. AID will not, in any way, be involved in the details of the specific activities of these GOT programs or Housing Bank loans which receive HG budgetary support.

B. RECOMMENDED ENVIRONMENTAL ACTION

1. GRANT PORTION OF THE PROGRAM

The designers of this proposed Program have reviewed its relationship to the environment and have determined that the project qualifies for a Categorical Exclusion under 22 CFR 216.2(c)(2)(i) and (iii). The grant portion of the project will fund technical assistance, training, analyses, studies, workshops, and meetings, but not the construction of facilities.

2. HOUSING GUARANTY PORTION OF THE PROGRAM

The HG loan guaranty portion of the project will provide budgetary support to the GOT. The HG loan program will not provide financing for specific activities to be designed by AID. The small scale water and sewerage networks of the PPES Program will apply design criteria and standards developed and approved by AID with the Tunisia Ministry of Environment and Land Use Planning, but AID does not require nor will it have knowledge of or control over the details of the specific project activities funded by the PPES Program. The design criteria and standards will apply to all activities under the HG eligible GOT environmental infrastructure improvement programs and not simply specific activities to which AID financing may be attributed. Loans provided by the Housing Bank for private developer construction of low-income shelter may also be capitalized through HG budgetary support. AID will have no role in the review and approval of individual loans. Hence the

designers of the Program have determined that the HG loan guaranty portion of the Program qualifies for a Categorical Exclusion under 22 CFR 216.2(c)(ii) and 216.2(c)(2)(x) and (xv).

The proposed project is fundamentally intended to improve environmental conditions. Because of that the Mission will be active in dealing with the intent of the AID Environmental Procedures. The fundamental character of the Program dictates that, at the implementation stage, technical assistance and training activities will be provided to assist the GOT to enforce the AID-agreed environmental design criteria and standards as well as improve their overall regulation of wastewater and solid waste services.

To insure compliance with the intent of AID environmental procedures, a plan, to appear as an Environmental Annex to the PP, will be developed to provide for the conduct of routine sampling/oversight of the physical urban environmental infrastructure sites over the life of the Program to make sure that AID/Ministry of Environment approved procedures are being followed. A small amount of program funds will be set aside for this sampling/oversight process and to document compliance with AID environmental regulations. This documentation can also be used to satisfy reporting requirements in the form of Objectively Verifiable Indicators as well as other evaluation tools.

ENVIRONMENTAL DETERMINATION:

Grant: Categorical exclusion under AID Regulation 216.2(c)(2)(i) and (iii).

HG: Categorical exclusion under AID Regulation 216.2(c)(ii) and 216.2(c)(2)(x) and (xv).

Approved: _____

Disapproved: _____

Date: _____

Clearances:

Mission Environmental Coordinator: B Hill _____/_____
RHUDO Director: D Painter _____/_____
Regional Legal Advisor: J Power DRAFT /3/5/93