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UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

TUNISIA

LOW COST SHELTER

664-HG-004

AMENDMENT

DATED SIGNED: 05/13/93

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A = Add, C = Change, D = Delete — Amendment Number 4

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: TUNISIA

3. PROJECT NUMBER: 664-HG-004

4. BUREAU/OFFICE: NE

5. PROJECT TITLE (maximum 40 characters): Tunisia Low Cost Shelter Project

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY

7. ESTIMATED DATE OF OBLIGATION (Under 'B:' below, enter 1, 2, 3, or 4) (Guaranty Authority This Amendment)

A. Initial FY 90 B. Quarter [ ] C. Final FY 92

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	1,750		1,750	1,750		1,750
(Grant)	(1,750)	( )	(1,750)	(1,750)	( )	(1,750)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1. Housing Guaranty	4,000		4,000	80,000		80,000
Other U.S. 2.						
Host Country					28,400	28,400
Other Donor(s)				34,000		34,000
TOTALS	5,750		5,750	115,750	28,400	144,150

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. PRIMARY TECH. CODE 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. OBLIGATIONS TO DATE 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. AMOUNT APPROVED THIS ACTION 2. Loan	F. LIFE OF PROJECT 1. Grant	F. LIFE OF PROJECT 2. Loan
(1) HG-1	930	863	862	1,750	4,000			1,750	4,000
(2) HG-2	723		862		46,000				46,000
(3) HG-3	723		862		15,000				15,000
(4) HG-4	723		862				15,000	1,750	80,000
TOTALS				1,750	65,000				

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 865

11. SECONDARY PURPOSE CODE: 723

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BU						
B. Amount	80,000						

13. PROJECT PURPOSE (maximum 480 characters)

This amendment seeks to improve municipal capacity to plan, finance, deliver and manage important urban infrastructure and services, through increased availability of resources to finance infrastructure, more efficient revenue management and increased use of private sector to plan and implement projects.

14. SCHEDULED EVALUATIONS

Interim MM YY 09 92 | MM YY 09 93 | Final MM YY 09 95

15. SOURCE/ORIGIN OF GOODS AND SERVICES

[ ] 000 [ ] 941 [ ] Local [ ] Other (Specify) N/A

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ___ page PP Amendment.)

Increase authorization from $65 million to $80 million, to finance municipal development and infrastructure decentralization sub-program.

17. APPROVED BY

Signature: James A. Graham [signature]

Title: Director, USAID/Tunisia

Date Signed MM DD YY: 05 13 93

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

AID 1330-4 (8-79)

Clearances: RHUDO/NENA	: DLPAINTER		Date: 5/13/93
RLA/USAID Amman	: JPower	(Draft)	Date: 12/4/92

.b'

ACTION MEMORANDUM FOR THE MISSION DIRECTOR

DATE : May 7, 1993

FROM : Lane Lee Smith, Regional Deputy Director, RHUDO/NENA

SUBJECT: Approval of PP Amendment for 664-HG-004 Project

ISSUE

Your approval of the attached PP Amendment to the Low Income Shelter Program, 664-HG-004, is required to permit USAID to execute a Housing Program Agreement for the Program with the Government of Tunisia.

BACKGROUND

The Mission Director approved the $15 million 004D Amendment to the Low Income Shelter Project (664-HG-004) on August 30, 1990, based upon a Delegation of Authority from the Regional Assistant Administrator (90 State 213038), increasing the Housing Guaranty (HG) LOP to $80 million. In accordance with two allocations of HG authority the Mission Director subsequently authorized $10 million of HG authority on September 27, 1990 and $5 million on August 30, 1992, bringing the Project to its fully authorized LOP of $80 million.

The HG 004D component consists of a project to help create a sustainable municipal financial mechanism by preparing municipalities to tap domestic financial markets to finance capital improvements as well as make certain HG-eligible physical outputs. The proposed implementation arrangements included the borrowing of HG by the GOT and the provision of the equivalent amount in Tunisian Dinars to the Housing Bank. The Housing Bank was then to on-lend these funds to municipalities at market rates to finance the rehabilitation of deteriorated sewage and other HG-eligible infrastructure projects. These Housing Bank loans were to be the basis of the HG's eligible expenditures.

DISCUSSION

Shortly after the HG 004D Amendment was approved the GOT requested AID to consider certain changes in the project implementation arrangements. While no changes in the HG 004D authorizations are needed and the Goal and Purpose remain the same, the PP needs to be revised to take into account these changes in the GOT views. Rather than working through the Housing Bank, the GOT wishes to work through the Municipal Development Agency (CPSCL). That institution needs to be restructured before it can be an efficient mechanism to finance capital improvements through municipal borrowings at financially sustainable rates. Thus the redesigned HG 004D will mandate as a condition of HG disbursements that the GOT achieve a mix of policy-reform benchmarks related to, among other municipal finance concerns, a restructured CPSCL. Whereas HG 004D as originally designed was principally a projectized HG (through the HB), the re-designed HG 004D will be a policy-reform HG directed at the CPSCL. Eligible expenditures will, of course, still be required from GOT shelter and shelter-related urban infrastructure programs benefitting below median income households.

<u>AUTHORITY</u>

Under Delegation of Authority No. 654 you have authority to amend a Project Paper executed by any A.I.D. official, provided that the amendment:

(a) Does not result in a total Life-of-Project funding of more than $30 million;

(b) Does not present any significant policy issues; and,

(c) Does not require the issuance of any waivers which may only be approved in A.I.D./Washington.

<u>FINDINGS</u>

This Project Paper Amendment does not change the already approved Life-of-Project funding level; does not present any significant policy issues; and, does require the issuance of any waivers.

<u>RECOMMENDATION</u>

That you approve the revised 664-HG-004D PP Amendment as attached.

James A. Graham
Approved

____
Disapproved

May 13, 1993
Date

DOC: H:\PUBLIC\MEMOS\4DACTMEM

TUNISIA

LOW-COST SHELTER PROJECT

AMENDMENT No. 4

664-HG-004

PROJECT SUPPLEMENT

May 7, 1993

RHUDO/NENA: LLSMITH:sc
5/7/1993
ID: 6837U
WPC: PPHG004D

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I. SUMMARY AND RECOMMENDATIONS

This $15 million Housing Guaranty Progam, 664-HG-004D, will assist the Government of Tunisia in its efforts to improve the quality of shelter and related infrastructure in poor urban neighborhoods through the improvement of decentralized infrastructure finance and management practices. The Program is an extension of policies and programs begun in 664-HG-004B, which has financed new sewer systems in low-income neighborhoods, and 664-HG-004C which includes assistance for low-income residential land development. The Program will serve as a bridge between these on-going GOT-USAID programs and a new generation of programs dealing with urban services and the private sector.

A. Program Goal and Purpose

The Goal of this Program is to improve the quality of shelter and related infrastructure for poor urban households through capital improvements or investments at the Municipal level. This will be achieved by establishing a set of financial mechanisms for the construction, rehabilitation and maintenance of much needed infrastructure and services at the municipal level and promoting municipal borrowing for capital improvements.

The Program will achieve its purpose through the following:

1. Increase the availability of resources to finance capital improvements or investments through municipal borrowing at financially sustainable terms;

2. Improve municipal revenue collection and cost recovery performance for capital investments;

3. Improve municipal capacity to undertake capital projects using the private sector to design, execute and manage the projects; and,

4. Improve the Government of Tunisia policy planning and analysis capacity with respect to municipal development and decentralization.

B. Brief Program Description

The Program will achieve its objectives through both capital investment and policy development components.

1. The Investment Plan - The Program will provide $15 million of Housing Guaranty capital to the GOT for investments to solve immediate and pressing problems of deficient infrastructure in low-income neighborhoods. It will provide financing for municipalities to rehabilitate and/or extend sewage and storm water systems, sidewalks and roadways or other public shelter related infrastructure in low income neighborhoods where

services are incomplete or lacking. The GOT will borrow $15 million on the US capital markets, covered by a "full faith and credit" US Government guaranty. The GOT will prepare an Investment Plan describing the GOT municipal investment programs, not financed by other donors, that will be used to liquidate the Tunisian Dinar equivalent of the HG loans. This Plan will be approved by AID, subject to review and updating during the Periodic Reviews scheduled for the Program.

2. The Policy Action Plan - The municipal policy and institutional reform efforts to be undertaken by the GOT and supported by AID are to be described in the Policy Action Plan (PAP). The PAP identifies a series of policy development activities ranging from broad policy analysis on issues such as infrastructure cost-recovery practices, to the establishment of rational and transparent criteria for making municipal investment decisions, to the implementation of demonstration projects utilizing the private sector for the provision of infrastructure.

   The activities in the PAP are directly linked to the achievement of Program purposes. The GOT and AID will undertake Periodic Reviews of the progress made by the GOT in accomplishing the activities contained in the PAP. These reviews will serve as a basis for determining eligibility of the GOT to draw down HG loans.

C. Implementation Plan

The Program will be implemented under the overall guidance of the Ministry of Interior, Directorate for Local Authorities. It will constitute a Municipal Development Monitoring Committee comprised of members from the concerned GOT entities such as the Ministries of Plan, Finance and Housing, and the National Federation of Tunisian Cities, among others. This MDMC will be responsible for:

- Reviewing and updating the Investment Plan;
- Reviewing and updating the Policy Action Plan;
- Reviewing and monitoring the implementation of the TA&T plan;
- Reviewing and following up conclusions of policy studies;
- Participating in Periodic Reviews.

D. Project Financing and Loan Terms

This $15 million supplement is intended to finance infrastructure improvements for roughly 7,500 households. With this $15 million supplement, the HG-004 program will be increased to $80.0 million. Of this amount, $51 million has been borrowed by the Government of Tunisia. The most recent borrowing for $9.4 million was auctioned in November 1991.

Technical Assistance requirements to support this program may be provided separately through USAID/Tunisia Project funds. Should sufficient funds from USAID/Tunisia not be available the GOT will seek to identify additional means to achieve the program benchmarks. If this proves infeasible, USAID/Tunisia and the GOT will re-examine the benchmark for possible modification to reflect these changing circumstances.

E. Recommendation

Subject to the terms and conditions of the Project Authorization, it is recommended that an amendment to the $65 million Tunisia Housing Guaranty (HG) Program 664-HG-004 be approved as herein described.

II. PROJECT BACKGROUND AND DETAILED DESCRIPTION

A. PROJECT BACKGROUND

1. Background of the HG-004 Program

HG-004 is a $65 million multi-year program whose purpose is to finance serviced land and housing affordable to below median income households and to improve the efficiency of the sector through policy and institutional initiatives.

In its first phase, some $2.0 million was used to rehabilitate and replace severely damaged or destroyed low income shelter after major flooding in 1984. This portion of the program, long since completed, led to serious discussions of subsequent bilateral cooperation in the provision of low income shelter.

In its second phase (HG-004B), $48.0 million was made available to support two sub-programs:

A sites and services program which has successfully provide small serviced plots and mortgage loans to low income beneficiaries to build new housing; and,

A sanitation upgrading sub-program which has helped improve sewage and drainage systems serving poor neighborhoods in some thirty Tunisian cities.

GOT counterpart agencies for the sites and services program have been the Housing Bank (formerly CNEL) and the National Land Agency (AFH), while the National Sewer Agency (ONAS) has been the counterpart for the sanitation upgrading program.

This phase of the program helped to encourage the GOT to realign shelter interest rate policies in accordance with market rates and to increase water/sewage usage fees to more appropriate levels. Approximately $41.4 million has been disbursed and some $6.6 million remains.

With the initiation of the HG-004C, the program shifted its primary focus in the sector from "production" to policy development. Under this $15.0 million sub-program, CNEL the former National Housing Fund, has been transformed into a full service autonomous housing bank. In addition, AFH, the National Land Agency, has evolved from the retail sale of individual plots to that of wholesaler of land serviced with off-site infrastructure to private developers. They in turn complete the on-site works and sell plots or housing units to eligible low income beneficiaries. The program is also open to municipalities to carry out similar projects with private developers. All conditions precedent under HG-004C were satisfied and a first borrowing of $7.5 million took place in December 1991.

Significant policy change has occurred as a result of the HG-004 Program and AID's policy dialogue with the GOT. The former National Savings Bank (CNEL) has been transformed into a full service housing bank that now services loans for home improvements, home resale, private developer construction financing, and lending to municipalities for land development. In addition commercial interest rates have been instituted by the Housing Bank and it now has some private shareholders. The BH recently took a major privatizaion step, selling TD 15 million ($18 million) of stock on the private Tunisian capital market. Thus, the Bank is 44% privately held.

As part of the Sanitation Upgrading Program supported by HG-004B, the National Sewer Agency (ONAS) now adjusts sewer rates on an annual basis to more fully cover its costs. It also contracts out all of its work to the private sector. Finally, the land development agency (AFH) also contracts out its work to the private sector and has considerably increased its functioning as a land assembler and wholesaler to private sector developers.

During the course of implementing the various HG-004 elements the GOT and AID identified as a further sectoral constraint the limited abilities of municipalities to plan, finance, manage and implement badly needed infrastructure programs in existing low-income neighborhoods. For a variety of reasons including structural adjustment, the highly centralized mechanisms for financing and installing or rehabilitating urban infrastructure were proving inadequate to the growing needs of Tunisia's municipalities. At the same time both GOT and AID officials began examining the applicability of decentralization principles and practices to the problem.

The GOT has recently embarked on an ambitious program of decentralization, to provide both responsility and authority to municipalities to directly tackle their concerns. In concert, USAID/Tunis and RHUDO/NENA have identified decentralization and development of municipal capacity as a priority area for future program development.

Both the GOT and AID therefore view this proposed supplement, with its municipal finance, enhanced municipal capacity and authority and increased use of the private sector, as a natural extension of the sectoral and policy reach of HG-004. At the same time it is a logical "bridge" into a future area of strong programmatic interest to both governments.

2. Background to Municipal Development and Financing

Tunis, Tunisia's first municipality, was created in 1858. To date, there are more than 250 municipalities that vary considerably in size and population. The largest, Tunis, has a population of 690,000 and the smallest, Cherarda, only 500. Most municipalities in Tunisia are small: more than half of them (130) have fewer than 10,000 inhabitants.

Municipal territories cover only urban areas. Thus, according to the census definition, municipal population is equivalent to the urban population, which in 1989 represented 60% of Tunisia's total population.

Municipalities are created by decree and their responsibilities, structure and organization are regulated by the Municipal Code (Loi Organique des Communes) of May 1975, amended in 1985. Since that time, municipalities have been defined as decentralized administrative units, and are expected to fully contribute to both local and national growth.

Tunisian municipalities however, do not yet constitute strong local structures. A considerable gap persists between the role assigned to them by law and the one they are able to perform. Consequently, the economic importance of local governments remains very weak. In 1988 for example, the total budget of Tunisian municipalities represented only 1.5% of GDP, while their resources represented merely 5.0% of the State's financial resources.

The principal function of a municipality is delineated in the Municipal Code. According to this code, municipalities have a civil character and financial autonomy, and are responsible for managing community affairs. They participate within the framework of the National Spatial Plan for Regional Development as well as in the economic, social and cultural promotion of the community. Municipalities have two kinds of responsibilities: development of the municipal community and management of municipal affairs.

Development of the municipal community is achieved through local level implementation of the actions and investment programs contained within the National Five-Year Development Plans, promotion of economic, social and cultural life within the community, implementation of municipal development plans, and definition of the municipal capital investment program.

Management of municipal affairs covers four types of activities:

- collection of funds and protection of property;
- protection of public health and order (including maintenance of roads, public spaces and buildings, household garbage collection, hygiene, control of urban public services and goods exposed for sale);
- management of municipal territory (including road systems, alignments, zoning and sanitation plans etc.); and
- management of the civil registry.

Municipalities have few functions which they administer directly. Most of the "typical" municipal functions are exercised by national agencies. SONEDE for example, is in charge of water supply and distribution, ONAS for sewerage construction and maintenance, and ARRU for urban renewal and rehabilitation. AFI is responsible for industrial site locations, while AFH is responsible for land development for housing, and MEH maintains responsibility for road construction.

Municipalities are therefore dependent on one or more of the above named entities for the provision of "municipal services", with exception, of some minor road and sewer works, refuse collection, street lighting and some community facilities. The result is a stunted capacity of cities to plan and implement their own development.

These cumbersome institutional arrangements between municipalities and national level agencies during a period of rapid growth have led to serious infrastructure deficiencies in low income neighborhoods in many cities.

While it would appear that affected municipalities should take the lead in resolving these conditions of inadequate urban infrastructure, the only resources available to them to finance capital improvements are residual budget funds available after operating expenses have been covered, specific grants from the national Government, modest portions of the FNAH (a centrally managed add-on to municipal property taxes) and loans from CPSCL (Local Government Support and

Loan Fund). Municipalities are also authorized to recover the cost of investments through direct charges to beneficiaries, although they rarely do so.

Although concessional, CPSCL loans for infrastructure (i.e. 20 year loans at a 2% annual interest rate) have been a major source of financing for local improvements in the past. The subsidized nature of these loans has resulted in a sharp decline in their availability over the last few years. National grants also have not been available for these projects and are even less likely to be forthcoming in the future. While financing municipal infrastructure improvements through a re-structured CPSCL should be possible in the future, a considerable amount of time will be required to re-orient this Fund and make it fully operational.

In the meantime, frustrations continue to build for both project residents and municipal officials who, in Tunisia's growing democratic climate of local responsibility, must now find ways to respond to problems at the local level. The GOT recognizes that the only viable solution is to improve municipal capacity to plan, finance, implement and manage urban investments based on sounder financial terms.

B. PROJECT RATIONALE

Tunisia's economic adjustment and the expansion of private sector activity will be a strong catalyst for the investment of private capital in cities in order to realize national economic goals and policies.

The municipalities in Tunisia currently operate within a very broad and complex institutional framework. As noted above, numerous national government agencies, public enterprises and financing entities motivate, regulate and control their activities to the point where individual municipalities have very few functions that they administer directly. The systematic control, or "tutelle", that is placed over local governments has hampered the delivery of urban services and made it extremely difficult for municipalities to plan, finance and implement badly needed infrastructure and capital development projects.

Emerging Government policies and programs place greater emphasis on decentralization and local government responsibility. This will include a growing role for municipalities in providing the necessary infrastructure to support economic development, stimulate and sustain the expansion of private sector activity, and respond to citizen needs to improve the quality of their living conditions. It also has become clear that central government resources are too limited to keep pace with rapidly growing infrastructure needs. As a result local governments will have to expand their own ability to finance, coordinate, provide and maintain urban infrastructure. This will require that they be able to generate more local resources for development, tap into capital markets and more effectively use the private sector for the delivery of urban services.

This program will provide both capital and policy - oriented technical assistance that will be critical as the GOT and municipalities restructure the municipal infrastructure financing system and enable them to respond to citizen needs for improved infrastructure and living conditions. It will help municipalities plan and implement capital development projects using the private sector, and assist them to improve cost recovery policies and procedures through better and more equitable tax collection and improve municipal financial management practices. In so doing, the program will:

- increase financial resources for municipal lending to benefit a growing number of municipalities;

- provide an important learning experience for municipalities in the areas of local financial and technical management;

- serve as a bridging mechanism to policy related improvements in municipal financing; and

- enable full value to be gained from both public and private sector investments in shelter for low income families by upgrading incomplete or substandard systems to conditions that will guaranty their maintenance in the future.

Future economic development in Tunisia increasingly will depend on the adequate provision and maintenance of urban infrastructure and services at the local level. Expansion of the role and importance of municipalities therefore, is probably irreversible and will require that political and administrative responsibilities and resources be progressively decentralized. An appreciable expansion of the powers and responsibilities of municipalities, as well as improvements in the availability of resources have been initiated.

Much remains to done however, in establishing a supportive policy environment, if local governments are to develop the capacity to intervene decisively in the economic and social development process. This Housing Guaranty program will provide very important financial support and technical assistance that will help municipalities increase their ability to carry out this new role.

One area of policy reform that is critical to the development of municipalities in the future is access to sufficient financial resources on a transparent, dependable and consistent basis. The GOT Municipal Development Authority, the CPSCL, is a key element in that process. Previously, the CPSCL functioned as an arm of the Ministry of Interior, operating out of sight of the public and with very little executive oversight from its Board of Directors. Although its grant funds and two per cent loans were inexpensive, they were unpredictable, and the low, unsustainable, interest rates made them increasingly scarce as a resource for municipal development. Its management was inexperienced and it had little in the way of effective, standard operating or lending procedures.

With the advent of the Eighth National Development Plan, however, the GOT has elected to restructure the CPSCL into an autonomous entity under the "Tutelle" of the Ministry of Interior and responsive to the policy guidance of a representative board of directors. It will lend at more sustainable interest rates (currently six and one-half percent that are projected to be positive over the life of the Eighth Plan, and will establish standardized project formulation, appraisal, approval and monitoring processes, along with explicit criteria for the "mix" of loan, grant and "own source" financing that will be made available for each type of municipal investment program. The net result of this policy reform will be to provide a clear and predictable source of financing for municipal governments, that will permit them to engage in the type of rational, cost-benefit based investment planning that is going to be expected of them in the future.

C. DETAILED PROJECT DESCRIPTION

The Goal of this Program is to improve the quality of shelter and related infrastructure for poor urban households through capital improvements or investments at the Municipal level. This will be achieved by establishing a set of financial mechanisms for the construction, rehabilitation and maintenance of much needed infrastructure and services at the municipal level and promoting municipal borrowing for capital improvements.

The Program will achieve its purpose through the following:

1. Increase the availability of resources to finance capital improvements or investments through municipal borrowing at financially sustainable terms;

2. Improve municipal revenue collection and cost recovery performance for capital investments;

3. Improve municipal capacity to undertake capital projects using the private sector to design, execute and manage the projects; and,

4. Improve the Government of Tunisia policy planning and analysis capacity with respect to municipal development and decentralization.

1. Program Components

The Program has been designed with two major components, a capital investment component benefitting low income urban neighborhoods, and a policy and institutional development component to assist the GOT as it develops the capacity of Tunisian municipalities to plan, finance and manage the urban growth process. The two components are linked in that the Housing Guaranty resources will be disbursed based upon progress achieved by the GOT in achieving this ambitious policy component.

(a). The Capital Investment Component

(i) Budget Support for Municipal Infrastructure Developement

The HG 004D Program will provide $15 million of Housing Guaranty capital to support GOT expenditures, not financed by other donors, for the rehabilitation and completion of sewer, storm water, road networks and other infrastructure in residential areas that primarily house low income families. These HG loan funds will be disbursed based upon the achievement of policy and institutional development objectives established for the Program.

(ii). Geographic Focus of the Program

This program will focus on the major urban areas of the country, with some of the areas of greatest need being in the municipalities in the Greater Tunis area, including the city of Tunis itself. The Governorate of Ben Arous is a good example, where residents have been most vociferous in their demands for improvements and muncipalities have been motivated and anxious to improve affected areas. Ben Arous is located directly south of Tunis and is one of three governorates that form the Greater Tunis area. In 1989, Ben Arous had almost 300,000 inhabitants, of which 75% lived in its 8 municipalities. Since 1975, the Governorate's population has grown at an annual rate of 5.5% which is far greater than the 3.2% rate for Greater Tunis as a whole. Possessing some 40% of land available for development in the Greater Tunis area, this governorate will continue to grow rapidly.

(iii). Description of Potential Sites

A sample of potential sites within the Greater Tunis area includes a number of housing projects originally built by SNIT. The poor condition of infrastructure within these relatively recent neighborhoods results from inadequacies in the original design, unanticipated densification in the number of housing units through the construction of additional floors, and the lack of subsequent maintenance once the projects were completed. Most of these projects were built during the mid-1970's when SNIT was producing a very large number of units and acting more or less on its own authority.

Because of cost constraints and the rapid pace at which projects were being developed and implemented, required infrastructure norms and standards were not always strictly observed. As a result, ONAS refused to accept full responsibility for the operation and maintenance of many of the sewer systems, while individual municipalities refused to be responsible for the upkeep of drainage systems and roads. ONAS and the municipalities will accept full operation and maintenance responsibilities only when infrastructure networks in these neighborhoods are brought up to required standards.

This combination of poor institutional coordination and limited financial resources has led to deplorable infrastructure conditions and the current stalemate in making the necessary improvements. Occupants continue to pay a high price in chronic health and sanitation problems and reduced property values. Until now, no practical way to resolve this situation has been proposed. SNIT has long since completedits involvement in these projects and in any case, no longer has the financial resources to carry out the required rectifications. Residents are essentially low income families who in most cases, already have paid for their housing units and what they believed would be a satisfactory level of infrastructure. Municipalities most affected by this situation do not have the financial resources to deal directly with the problems presented by these housing sites or with the more generalized problem of poorly serviced low income neighborhoods. Many other low income neigborhoods suffer from the lack of infrastructure as well.

(b) The Policy and Institutional Development Component

This component of HG 004D will have four areas of emphasis, corresponding to the four purpose level objectives of the Program.

(i) Increase the availability of resources to finance capital improvements or investments through municipal borrowing at financially sustainable terms. The Program will assist the GOT to restructure the existing CPSCL into a more viable and effective municipal development authority. Prior to this transformation, the CPSCL provided loans to municipalities at rates of two to four percent per year. It functioned as an operating division of the Ministry of Interior. Project lending criteria were not spelled out, the governing Board of Directors had not met in four years, and its resources were distributed in an *ad hoc* manner.

With the advent of the Eighth Development Plan, the CPSCL will begin lending at six and one-half percent, a rate it estimates will be positive *vis-a-vis* the projected inflation rate during the 1992-1996 Plan period. It has also committed to reviewing these interest rate assumptions on a periodic basis. The Program will assist the GOT restructure the CPSCL to:

-Re-establish the CPSCL outside of and under the "tutelle" of the Ministry of Interior, appoint a director, develop an operating budget, augment and train its staff and prepare internal operating procedures;

-Establish clear and transparent project financing criteria, especially regarding the mix of loan, grant and "Own Source" financing necessary for each category of municipal investment to be supported by the CPSCL;

-Conduct policy analyses related, among others, to the financial sustainability of the CPSCL, with emphasis of methods of mobilizing private sector capital.

(ii) Improve municipal revenue collection and cost recovery performance for capital investments. The Program will assist the GOT and selected municipalities to improve their capacity to forecast, mobilize, allocate, track and evaluate the flow of municipal revenues in support of capital investments. The Program will support a series of policy analyses and pilot projects focussed on potential areas such as:

-Property tax collection;
-Local tax reform;
-Central-local budget allocation processes;
-Analytical cost accounting; or,
-Municipal staff training.

(iii). Improve municipal capacity to undertake capital projects using the private sector to design, execute and manage the projects. The Program will assist the GOT and selected municipalities to evaluate their infrastructure and municipal services delivery processes and identify appropriate opportunities for an increased use of the private sector.

The Program will support a series of policy studies and pilot activities on potential topics such as:

-Policy analyses on the delivery and financing of infrastructure;
-Preparation of five-year municipal investment plans based upon rational project selection criteria; or,
-Identification of potential privatization opportunities such as solid waste management.

(iv). Improve the Government of Tunisia policy planning and analysis capacity with respect to municipal development and decentralization. The Program will assist the GOT to establish a data base of relevant information that will permit it to evaluate on a regular basis the effects of the policy and institutional changes being undertaken as part of the Municipal Development Component of the Eighth Plan, and will serve as a means of assessing the GOT's eligibility to draw down HG loans.

(c). Technical Assistance

It is anticipated Technical Assistance and Training activities in support of the Policy and Insitutional Development Component will be financed through various USAID/Tunisia programs. Should sufficient funds from USAID/Tunisia not be available the GOT will seek to identify additional means to achieve the program benchmarks. If this proves infeasible, USAID/Tunisia and the GOT will re-examine the benchmark for possible modification to reflect these changing circumstances. Currently, it is anticipated that funding will come from the Private Enterprise Promotion Program (PEP 664-0346) and the Development Studies Program (DSP 664-0353).

Notional technical assistance and training activities can be categorized as follows:

(i) Detailed Policy Analyses on such issues as: Alternative financing models for municipal development authorities; Central-Local budget and grant allocation processes; or, Delivery and cost recovery policies for Tunisian infrastructure and services.
(ii) Institutional Development Activities, for example: To assist the CPSCL to develop Standard Operating Procedures for loans to municipalities; To assist the CPSCL and municipalities to apply transparent and rational criteria for infrastructure investment; or, assist municipalities to better manage financial resources.
(iii) Municipal Management Demonstration Projects, for example: Computerized property tax management; Sub-contracting to the private sector to deliver urban services.

2. How the Program Will Work

The Program will be implemented as a policy - based program, in that the HG loans will be disbursed in support of and recognition of the achievement of a series of policy and institutional reforms noted above. The GOT and AID will negotiate a Policy Action Plan (PAP) addressing those issues and forming a part of Annex A of the Program Agreement between the two governments. The two governments will conduct Periodic Reviews to assess progress on this Policy Action Plan. These reviews will serve as the basis for deciding upon the amount and timing of the HG disbursements.

GOT expenditures for infrastructure in eligible neighborhoods, such as sewer upgrading, drainage, trunk sewer extensions for low income shelter developments and the like will be used to liquidate the HG loans. This Investment Plan will be identified and verified as part of the Periodic Review process.

3. Beneficiaries of the Program

(a) Low Income Families.

Direct beneficiaries of the infrastructure improvements financed by this program will be low income families living in neighborhoods where substandard housing conditions exist. Eligible project sites will be limited to neighborhoods where the overall median household income is estimated to be below that for the Greater Tunis area, currently estimated at 320 TD per month ($375) Rehabilitation of these sites will improve sanitary and health conditions, provide better access and safety, and improve the overall living environment for the residents. Particular benefit will accrue to women and children who spend a considerable amount of their time at home or in the neighborhood.

(b) Municipalities

By dealing with long-standing and aggravating physical problems, municipalities will be able to respond to the very real needs of their inhabitants. The program will provide direct support to the development of responsive and effective local government which is one of the basic principles of a democratic society.

Participating municipalities will benefit from the program by gaining access to credit to carry out necessary capital improvements in low income neighborhoods. Technical assistance and training will provide opportunities for professional and technical staff to improve their skills and expand their functions, improving morale along with capabilities.

(c) The CPSCL.

This program will benefit the CPSCL, by improving its capacity to manage funds, analyze project proposals and allocate loans and grants on the basis of rational and transparent criteria.

D. RELATIONSHIP TO GOT SECTOR POLICY

Like many other countries with growing populations and limited resources, Tunisia recently has adopted a policy of decentralization. From 1985, when the Local Government Code was amended and a general policy of strengthening local government articulated, very little real progress in decentralization had occured until 1989. At that time, the creation of Regional Councils and the delegation of authority to Governors provided positive indication that the Government was serious in following through on its commitment to decentralize decision-making and expand the responsibilities of local governments.

Although only modest progress has been made in decentralization to date, it is now moving forward. Municipal elections were held as planned in June, 1990. The GOT has recently promulgated an ambitious municipal development program within its Eighth Development Plan (1992-1996) which will continue the emphasis on structural adjustment and also support a more decentralized approach to regional development.

E. RELATIONSHIP TO USAID STRATEGY

This program is designed to strengthen democratic pluralism by improving municipal responsiveness to citizen needs. The ability of municipalities to address these needs is a cornerstone of democracy and one of the principal elements of the NE bureau strategy. In addition, the program opens the door for the private sector to play an expanding role in financing and managing capital improvements and development at the local level.

Improved tax collection will be one of the means through which municipal revenues are enhanced. As a result, the relationship between tax payment, financing and neighborhood improvement will become more direct and residents will be able to experience tangible improvements from their taxes. This will encourage the development of local private sector markets and enable more effective public sector response to the needs of local communities.

F. OTHER DONOR ACTIVITIES

Apart from A.I.D., the World Bank (IBRD) is the other primary donor in both housing and municipal development in Tunisia. AID and the World Bank have always worked together closely in this sector. The Bank's strategy has been to assist the GOT in attaining service level objectives for water supply and sewerage and to increase the level of public enterprise savings through further improvements in management efficiency and tariff policy. The IBRD has played a major role in the establishment of both SONEDE and ONAS, and has maintained a continuous dialogue with the GOT on sector policies. During this time, it has financed three Urban Sewerage Projects, part of which have been co-financed by AID under the HG-004B Program.

Like AID, it has financed shelter upgrading as an integral part of its urban development programs. These programs have shared the same objectives as AID, namely to provide affordable standards, encourage upgrading and develop land as an alternative to financing completed units. The Bank is currently providing loans to the Housing Bank to support its development.

In general, the World Bank and AID share the same policy objectives in municipal development. The World Bank and the GOT have recently negotiated a major loan to support the Municipal Development Component of the Eighth Plan. Important aspects of this include the strengthening the CPSCL, increasing interest rates charged for loans to the municipalities and improving municipal management and financial capacity.

As negotiated, the World Bank loan would support:

- A line of credit to finance investments including: construction and maintenance of municipal roads, sewage and drainage systems and street lighting; equipment purchase for environmental protection including the collection and treatment of household garbage; autonomous sewage systems; and the construction and purchase of equipment for municipal facilities such as streets or slaughterhouses;

- Loan funded TA to assist in restructuring the current CPSCL into an efficient financial intermediary for local governments;

- Training and equipment required to develop municipal capacities; increase municipal revenue by reforming the local taxation system; improve municipal management through the preparation of procedures manual and computerization of some municipal services.

According to Bank officials, the total cost of the MDP is an estimated $200 million of which around $80 million will be financed by the World Bank. It is expected that the remaining $120 to 150 million will be financed by the GOT, the municipalities concerned, the improved CPSCL and bilateral donors such as A.I.D. It is anticipated that the $15 million of Housing Guaranty resources from this proposed program will be devoted to urban upgrading efforts contained in the MDP.

At this point, there appears to be no conflict between AID and the World Bank. These objectives conform closely with the policy reforms being sought through the proposed HG 004D Program.

G. POLICY OBJECTIVES AND END OF PROJECT STATUS (EOPS)

As noted above, the specific rationale for this supplement is to promote economic development in Tunisia through the adequate provision of urban infrastructure and services at the local level. The roles and importance of municipalities need to continue to develop, and this project amendment is seen as an effective vehicle to facilitate such development. Hence, it carries a broader policy agenda as a "bridge" to future USAID and GOT development efforts.

Municipal finance in Tunisia is characterized by a heavy reliance on the Central Government. The share of total direct taxes benefiting municipalities is about 1.5% while their share of indirect taxes is 2.0%. Resources for municipal finance stem from three sources: municipal taxes and service fees, government transfers from the Municipal Fund and concessional loans from the CPSCL.

The level of investment directed and managed by municipalities is quite low. They average about $12 per capita per year, of which some $10 is self financed.

The GOT is currently taking the initial steps towards implementing a large scale decentralization program. A major part of its effort involves the revision of the municipal finance system towards one in which municipalities are granted more autonomy and increased access to borrowing. This would involve changing the charters of municipalities to those of autonomous entities and basing lending decisions on criteria that include socioeconomic and financial benefits and the ability of municipalities to service their debts. It also would include the diversification of institutional resources with more reliance given to domestic and foreign financial markets.

Discussions with GOT officials indicate that the changes noted above are anticipated during the Eighth Plan. The proposed HG-004D program therefore, is a first step towards implementing these changes and an important AID vehicle for policy dialogue during this period of transition.

In broadstroke, this supplement seeks to support municipal development through increased financial resources and improved capacity to manage the delivery of urban services.

The key policy questions are:

(1) Will the CPSCL develop sustainable lending practices based upon clear and transparent project selection criteria?

(2) Will municipalities seek to enhance financial management capacity in the key areas of improved tax collection and cost recovery practices?

(3) Will the municipalities seek, and be permitted, to develop their capacity to plan and manage infrastructure projects utilizing the private sector for implementation?

Answers to these questions should be forthcoming early in the program and should serve to inform the development of future AID and GOT efforts in municipal development.

Hence, the desired End-of-Project-Status (EOPS) are as follows:

- $15 million of urban upgrading and improvement projects in eligible poor neighborhoods;
- Tax collection improvement programs in place in a representative number of municipalities;
- Target municipalities with capacity to manage municipal rehabilitation projects of the types undertaken by the program;
- The CPSCL portfolio showing lending to municipalities, based upon clear criteria.
- The existence of a GOT data base sufficient to track performance indicators of the Municipal Development Component of the Eighth Development Plan.

III. PROGRAM COST ESTIMATE AND FINANCING PLAN

Total AID financing for the HG-004 project currently includes $65.0 million. This supplement will add $15.0 million in Housing Guaranty funds to be used to commence and sustain an infrastructure upgrading program of approximately 3,000 shelter units per year.

A. PROGRAM COST ESTIMATE

Detailed engineering studies were carried out in 1985 for a number of public sector housing projects that required infrastructure upgrading and/or completion. Table III.1. presents a sample of the sites that were studied, a brief summary of the work that needs to be done, and updated cost estimates based on the application of current construction costs. The table indicates the total area of each project site and the original number of housing units within each project. It also presents costs by type of infrastructure required (i.e. sewers, drainage, circulation).

Table III.1

LARGEST SAMPLE OF PUBLIC SECTOR
HOUSING SITES

	No. of	Sewers		Drainage		Circulation		TOTAL	Cost Unit
	Units	T. Dinars	%of Total	T. Dinars	% of Total	T. Dinars	% of Total	Dinars	DT/Unit
Ezzouhour III	220.0	58158.1	34.1%	55568.3	33.6%	56577.6	33.2%	170304.0	774.1
Khadhra II et V	613.0	288989.2	36.6%	216360.6	27.4%	284026.5	36.0%	789376.3	1287.7
Hrairia 123 (ho)	768.0	467084.9	45.6%	331923.9	32.4%	224631.0	21.9%	1023639.8	1332.9
Somrane I II	727.0	340737.8	32.6%	489324.1	46.8%	215126.4	20.6%	1045190.4	1437.7
Ibnou Khaldoun	4738.0	2343239.4	84.4%	275642.3	9.9%	156772.7	5.6%	2775654.3	585.8
Ourdia III	209.0	99572.3	33.2%	129755.6	43.5%	70535.7	23.5%	299863.6	1434.8
Ourdia II	509.0	253270.5	38.0%	93673.6	14.1%	319117.2	47.9%	666061.3	1308.6
Mnihla	1015.0	322429.2	64.1%	18640.8	3.7%	162279.1	32.2%	503349.2	496.4
Bouselsla/Ennasr	329.0	64278.5	30.5%	54758.5	26.0%	91517.1	43.5%	210554.1	640.0
Cites KRAM									
Yasmina I (421g)	42.0	0.0	0.0%	0.0	0.0%	29379.7	100.0%	29379.7	699.5
Yasmina II (961g)	96.0	0.0	0.0%	0.0	0.0%	34606.4	100.0%	34606.4	360.5
Stam (601og)	60.0	34473.7	67.7%	0.0	0.0%	16418.3	32.3%	50892.0	848.2
Chacker Jawhara	846.0	826418.0	38.1%	951184.7	43.8%	391597.8	18.1%	2169200.5	2564.1
Kersy	396.0	329995.9	17.7%	1069895.2	57.3%	467074.8	25.0%	1866965.9	4714.6
TOTAL	10567.0	5428649.5	46.7%	3686727.7	31.7%	2519660.1	21.7%	11635037.3	1101.1

The table shows that the total costs to upgrade each of these sites to acceptable infrastructure standards range from 29,400 TD ($32,300) to 2.8 million TD ($3.1 Million). The average costs per household range from TD 360 ($396) to TD 4714 ($5200).

Infrastructure improvement projects in "informal" neighborhoods are another type of project that would be eligible for financing under this program. Certain low income neighborhoods constructed with solid building materials lack basic infrastructure because their development has occured outside the formal governmental approval process. During the preparation of this Project Paper, a number of municipalities expressed their concern about the need to improve infrastructure conditions within these "informal" neighborhoods. GOT policy is to provide services to such neighborhoods.

B. HG DISBURSEMENTS

Two Housing Guaranty disbursements are anticipated under this program. Each disbursement will be triggered by the achievement of appropriate benchmarks contained in the Policy Action Plan. In addition to the qualifying policy progress, each disbursement will have to be liquidated against eligible GOT expenditures for urban upgrading or service extension in poor neighborhoods (not reimbursed by another donor). The first disbursement will permit an advance against expenditures expected during the twelve months following the signing of the Program Agreement between the two governments. The second disbursement will occur when sufficient eligible expenditures have been to made to liquidate both the final disbursement and any advance provided for in the first disbursement.

C. FINANCIAL FEASIBILITY

The proposed Housing Guaranty loan will provide important budget support to the GOT as it seeks to increase the delivery of necessary urban infrastructure to poor neighborhoods through more sustainable lending by the CPSCL to municipalities. This will require more financially sound local governments, with increased authority and responsibility for managing their finances and infrastructure investment planning.

During the Eighth Plan municipalities will become responsible for financing more of their investments through borrowing, and at higher, more sustainable rates. They will use revenue from a combination of sources to include: revenues resulting from improved tax collection, direct collection from the beneficiaries of infrastructure improvements, cost sharing from central government, and ONAS. The mix of resources to be used for repayment and the proportion recovered by the municipality from each revenue stream will vary from one project to another. It will depend on the overall cost of the project, the costs of different elements within the project, the level of beneficiary income and ability to pay for improvements, and the ability of the municipality to improve its tax collection performance.

The debt service to all municipalities in Tunisia is estimated at 6.5% of recurrent revenues, which is within the generally accepted 20% guideline for maintaining financial viability. Therefore in gross terms, the typical municipality could service the debt incurred to implement a prototypical project under the Eighth Plan. However, one should note that the typical municipality collects only 50% of property taxes as billed. A major component of the proposed program is to assist target municipalities to improve the efficiency of their tax management practices. (Please see Section V.B. of the Financial Analysis for a more complete discussion of this issue).

IV. IMPLEMENTATION AND MONITORING PLAN

A. RESPONSIBILITIES OF THE MAJOR INSTITUTIONS

The Program will be implemented under the overall guidance of the Ministry of Interior, Directorate for Local Authorities. It will constitute a Municipal Development Monitoring Committee comprised of members from the concerned GOT entities such as the Ministries of Plan, Finance and Housing, and the National Federation of Tunisian Cities, among others. This MDMC will be responsible for:

- Reviewing and updating the Investment Plan;
- Reviewing and updating the Policy Action Plan;
- Reviewing and monitoring the implementation of the TA&T plan;
- Reviewing and following up conclusions of policy studies;
- Participating in Periodic Reviews.

This program involves a number of Tunisian agencies, each of whom will have to fulfill its role in order for the project to succeed. Some of these agencies have worked together successfully in the past and it is anticipated that this spirit of cooperation will continue during the implementation of this Housing Guaranty Program.

1. Municipalities

"Self-selection" will be the modus operandi of the Eighth Plan. Individual municipalities will be responsible for identifying and defining infrastructure projects that will benefit low income families and be eligible for financing under the criteria of this program. They will determine priorities among projects, define and select eligible sites to be upgraded, establish infrastructure priorities within each site, and determine the preliminary feasibility of their projects. They will take the initiative of engaging loans from the CPSCL, and will be fully responsible for the repayment of these loans. They will contract work with private sector firms to carry out the design, execution and supervision of all site works. They may also call upon consulting firms to assist them in site supervision and management of specific projects.

2. The CPSCL

Under the Eighth Plan the CPSCL will be responsible for managing Government of Tunisia lines of credit and a grant fund. It will undertake all financial risk in managing these funds and will be expected to cover its costs of providing these services. The CPSCL will review applications for loans by municipalities and verify both the financial feasibility of individual projects, the municipality's cost recovery possibilities and its ability to repay the loan. It will assist the municipality in working out a satisfactory schedule of payments. Once the loan is made, the CPSCL will receive and monitor payments from municipalities.

3. ARRU

ARRU will act as agent for the Ministry of the Interior and and the CPSCL in providing overall management of the Eighth Plan municipal upgrading program. It will be responsible for general management and monitoring of the program, and will provide all documents and information required or requested by USAID. In addition, the agency will undertake the task of assisting municipalities, for a fee, in identifying projects, defining their content, carrying out essential surveys of the beneficiary population, and executing a preliminary analysis of feasibility. ARRU will assist the CPSCL in project appraisal by verifying the technical feasibility of the projects submitted by municipalities for financing.

4. ONAS

ONAS will assure that all sewer systems financed under this program are designed according to accepted norms and standards and installed correctly.

5. Private Sector Enterprises

Private sector consulting firms and construction companies will be contracted by municipalities to design, execute and supervise the construction of infrastructure networks in the low income housing areas improved under the Eighth Plan program. They also will assist the municipalities in the site supervision and management of specific projects.

B. PROJECT IMPLEMENTATION TIME FRAME

As a policy development program, it is expected to be completed within a period of five years from the point of issuance of the Housing Guaranty Letter Of Advice to the GOT, September 28, 1990. AID and the GOT at that point commenced a process of policy identification and development that has resulted in substantial progress with respect to the structure and role to be played by the CPSCL and the financial and technical initiatives to be undertaken within pilot municipalities.

Since both the AID Letter of Advice committing HG resources and policy development activities with the GOT date from September 28, 1990, AID intends to accept eligible GOT budget expenditures effective from that date to liquidate the HG disbursements. All HG disbursements are expected to be achieved within five years of this date, that is, September 28, 1995.

C. MONOTORING PLAN

This project will be managed by the RHUDO/NENA office in conjunction with USAID/Tunisia. There currently are two direct hire and one PSC staff members working on programs in Tunisia in this office and this level of support is expected to continue through the life of the program. RHUDO will assure that the program is in compliance with USG and GOT priorities.

Detailed information, required for monitoring the Housing Guaranty program, will be obtained by regular reporting from Tunisian agencies managing the program (e.g. ARRU and the CPSCL). A Municipal Development Data Base will be established to provide information sufficient to assess the progress of the Program.

The approved Policy Action Plan will be the basis for assessing Program progress on the policy agenda. AID and the GOT will conduct Periodic Reviews during which the progress to date will be assessed and the PAP will be updated for the next period. In addition, the GOT will propose an Investment Plan for the liquidation of the HG resources. These Periodic Reviews will be the basis for a decision to permit each of the HG disbursements planned for the Program.

D. EVALUATION PLAN

The policy focus and "bridge" nature of the Program increases the importance of the evaluation process. Thus, the Ministry of

Interior will establish a policy analysis capacity, with appropriate data bases, to measure: (1), The impact and achievement of the GOT objectives with regard to municipal development; and (2) the effectiveness of specific Municipal Development Projects.

The Program Agreement between the GOT and AID will require the establishment of an Evaluation Program for the Housing Guaranty Program as well as the development of a suitable data base. The required project evaluations will focus on the following:

- an evaluation of progress toward attainment of the objectives of the program, compared against a baseline data set (to be obtained in year one of program implementation by ARRU);
- the identification and evaluation of problem areas or constraints which may inhibit such attainment;
- assessment of how such information may be used to help overcome such problems; and
- an evaluation to the degree feasible, of the overall development impact of the program.

Both a Mid-term and Final Evaluations will be carried out as integral parts of this evaluation and tracking system.

V. SUMMARY OF PROJECT ANALYSIS

A TECHNICAL ANALYSIS

1. Background

In order to address Tunisia's housing stock deficit that prevailed in the years immediately after Independence, as well as to provide housing that was adapted to the needs of the people and their financial capacities at the time, housing agencies sought to build quickly and cheaply. Emphasis was placed on elements of the housing unit itself, without adequate consideration that housing is also a consumer of land and infrastructure.

Housing producers economized as much as possible on the quality of infrastructure and site layout, allowing a maximum proportion of total housing costs to be devoted to the unit itself. In addition, housing suppliers were primarily specialized in housing construction and did not know very much about the provision of infrastructure.

In order to economize on the land input, the choice of sites was often based on the one having the lowest price. As a result, many of the sites were located in areas having serious problems, for example flood zones and low lying areas, or areas located at excessive distances from trunk line infrastructure.

In addition, projects were frequently implemented with only a minimum of infrastructure (.e.g. compacted dirt roads, pit latrines, and the like). In time, these infrastructure systems proved inadequate, poorly adapted to the sites and their inhabitants and became the source of serious and considerable sanitation problems.

In locations where the level of infrastructure was adequately planned and designed, there were still problems in the quality of materials and execution of on-site work. The original mediocre quality of road construction, for example, has further deteriorated over time as a result of poor drainage conditions. Pot holes and breaks in the road surface are frequent. And in many cases, the base course and foundation have deteriorated as well.

Sanitation problems related to sewers and storm water drainage have been attributed to:

- undersizing of pipes,
- poor quality materials (e.g., poor cement and or mix leading to porous cement pipes),
- sections of pipe with negative slopes due to improper installation,
- poor quality manhole covers,
- poorly executed connections between pipes, particularly in water proofing and sealing the joints, a situation which is particularly serious for pipes laid below the water table,
- installation of pipes that cross more than one private property and/or under housing units,
- improper connections made directly by individuals to sewer lines that do not meet required standards and procedures; and
- crawl spaces under buildings that are frequently flooded by rainwater, backed up sewage, or leaks in plumbing pipes.

These situations have been aggravated even further by the lack of adequate maintenance of these road and sewer networks.

The need for upgrading varies from one project to another. The objective is to raise the level of infrastrucutre to an acceptable level without going beyond that which is commonly found throughout the city. A broad typology of solutions is needed that would allow different agencies to assume their responsibilities for maintenance under normal conditions and to proceed with the upgrading of road and sewers.

Concerning roads, upgrading can range from simply laying a new top coat, repairing pot holes and cracks, partial repair of the main body of the road, or redoing the entire road when the base course or foundation have deteriorated completely. The installation of curbs and gutters is very important to conserve and maintain road surfaces in the future and to assure good drainage. Construction of sidewalks can be left for owners of individual houses or in the case of apartment buildings, can be done with a single layer of tarmac. In effect, owners of individual houses can provide sidewalks along the edges of their property at considerably less cost.

In cases where the right of way of the road permits, deficient collectors for sewer and storm water drainage do not have to be removed. They can be left in place and the new ones laid in separate trenches. This approach has the advantage of keeping in operation at least a minimum level of sanitation during the installation of the new system. This will also make the placement of the new system much less expensive.

A review of the engineering studies and costs for the upgrading of SNIT projects has shown the storm water drainage is very costly. In cases where storm water drainage systems do not exist, the design of a new network should try to limit the length of the system as much as possible. Superficial run-off should make use of gutters along the sides of roads as much as possible, rather than more expensive buried conductors.

Upgrading sewer and drainage systems will consist primarily of replacing pipes laid with negative slopes, reinforcing undersized pipes, rebuilding certain manholes and grills, and replacing broken concrete manhole covers with those made of cast iron.

It is also important to relocate all pipes that currently cross one private property to reach another. Multiple connections will be accepted only along public streets. Sections of pipe that are below the water table and poorly waterproofed should be replaced to avoid having to pump water out or provide additional capacity at sewer treatment plants.

In order to evaluate infrastructure problems in SNIT projects and determine the cost of upgrading these sites, socioeconomic studies were carried out in 1985 for a sample of 32 sites in the Governorates of Tunis, Ariana and Ben Arous.

These projects included 18,420 housing units and housed roughly 104,000 inhabitants. There were 19 sites in which more than 50% of the population was housed in "sub-urban" housing and 13 sites in which more than 50% of the housing was apartment units or "economical" housing. Most of these projects were executed during the mid-1970's. According to this socioeconomic survey, the most significant problems are cause by deficiencies in sewer and storm water drainage networks. Among the sites, 16 comprising 10,600 housing units and a population of 64,000 were studied in detail with engineering drawings and bid documents prepared.

Site works as proposed in the bid documents are estimated to cost a total of TD 11.6 million at 1990 prices. A breakdown of these costs indicates that: 36% are for sewers, 10% for connections, 32% for storm water drainage, and 22% for roads.

The sites included in this sample give a good indication of the costs of upgrading current infrastructure deficiencies. However, site visits have indicated that in many cases the studies done in 1985 will have to be reviewed, since they do not reflect upgrading that has been programmed or implemented in the interim (Ibn Khaldoun, Khadra, Somran, Ezzouhour and Yasmine II). In other projects, some road upgrading has been carried out. (Chaker Johara, Ennasir).

B. FINANCIAL ANALYSIS

The proposed $15.0 million in Housing Guaranty funds will provide necessary budget support for the GOT to initiate and sustain an urban infrastructure upgrading and maintenance program of at least $3 million per year. This will be adequate to improve the living conditions of some 1500 low income families on an annual basis.

1. Loan Mechanism

The Government of Tunisia will borrow the Housing Guaranty funds and directly assume repayment of this loan and the foreign exchange risk.

2. Cost of Program

Detailed cost estimates for the rehabilitation and/or completion of infrastructure in public housing sites have been carried out as part of this Project Paper preparation. Table V.I. presents some of the key characteristics for a small sample of sites that would be eligible for Housing Guaranty financing under this program.

Table V.I.

SUMMARY OF COSTS FOR A SAMPLE OF PUBLIC SECTOR HOUSING SITES

	No. of Units	Total Dinars	Cost/Unit DT/Unit
Ezzouhour III	220.0	170304.0	774.1
Khadhra II et V	613.0	789376.3	1287.7
Hrairia 123 (ho)	768.0	1023639.8	1332.9
Somrane I II	727.0	1045190.4	1437.7
Ibnou Khaldoun	4738.0	2775654.3	585.8
Ourdia III	209.0	299863.6	1434.8
Ourdia II	509.0	666061.3	1308.6
Mnihla	1015.0	503349.2	496.4
Bouselsla/Ennasr	329.0	210554.1	640.0
Cites KRAM			
Yasmina I (42lg)	42.0	29379.7	699.5
Yasmina II (96lg)	96.0	34606.4	360.5
Stam (60log)	60.0	50892.0	848.2
Chacker Jawhara	846.0	2169200.5	2564.1
Kersy	396.0	1866965.9	4714.6
TOTAL	10567.0	11635037.3	1101.1

The cost per household or housing unit, varies from 360 TD to 4715 TD with an average of around 1100 TD.

A brief examination of typical costs for upgrading infrastructure in other types of low income neighborhoods which may also be submitted by municipalities for funding under this program has indicated an average cost of around 1100 TD or $1210. Although costs may vary from one type of project and site to another, the above estimates are considered adequate for determining the overall financial feasibility of the program.

3. Cash Flows and Affordability

(a) Tunisian Government

The proposed HG loan will provide interim budget support while the GOT restructures its municipal infrastructure financing system. The Tunisian Government will have the use of the foreign exchange resulting from the Housing Guaranty loan and will therefore assume the full debt service of this loan. The proposed Housing Guaranty loan is equivalent to 0.23% of the total Tunisian debt portfolio of $6.5 billion and the resulting debt service will be a similar proportion of the total debt service burden of the country.

(b) Direct Beneficiaries of the Program

Direct beneficiaries of this program will be households living in low income housing areas that meet program eligibility criteria for infrastructure improvement. Although the proportion of improvement costs to be paid directly by the beneficiaries is likely to vary somewhat between municipalities and projects, it is anticipated that direct project beneficiaries will contribute some portion of the total cost of rehabilitating their neighborhoods.

The exact method and formula to be used in making these payments will be based on the application of existing property taxes. Analysis of projected costs for upgrading a number of potentially eligible public housing sites under this program indicates that total costs average close to 1101 TD per household. These figures may be slightly higher for eligible neighborhoods in which no infrastructure currently exists.

The municipalities may utilise the approach begun by ONAS, wherein it obtains written commitment from beneficiaries to pay their direct contribution before it commences work on a project. This approach generally has been successful and municipalities may choose to include similar measures in deciding which neighborhood sites to upgrade.

(c) Municipalities

It is assumed that municipalities will be able to bear roughly 80% of the cost of a typical infrastructure improvement project. They will repay this debt primarily through improved tax collection. In the Municipality of Tunis for example, a tax collection improvement campaign was undertaken in 1986 that resulted in doubling the total municipal tax receipts from property assessments. A similar experience occured in Kairouan, where the introduction and use of a simple computer program for the management of property taxes led to a 65% increase in revenues.

On the average, only around 50% of the property taxes that are owed are in fact paid which leaves considerable room for improvement. Experience in Tunisia has shown that these improvements can be made at relatively modest cost. Significant possibilities seem to exist therefore, to improve municipal taxation and for municipalities to participate successfully in the program.

(i) Municipal Debt Carrying Capacity

The debt service of all municipalities in Tunisia is estimated at 6.8% of their recurrent revenue receipts. A general rule of thumb is that a municipality remains on a sound financial footing so long as its debt service does not exceed 20% of recurrent revenues.

A review of three Ben Arous municipalities for example, showed that debt service ratios over the next ten years, will be as low as 1.6% in Rades, from 3.2% to 4.6% in Meghrine, and varying from a low of 1.6% to a one year high of 8.9% in Ben Arous city.

The total yearly investments by municipalities is about 40 million TD of which 30 million TD is self financed and 10 million TD through borrowing. The current level of borrowing for capital investment is quite low, and could safely be increased without jeopardizing financial stability.

(ii) Debt Service Burden Resulting from a Typical Infrastructure Improvement Project.

The technical analysis conducted for the preparation of this Project Paper showed that the cost of a typical project will be around 1.24 million TD ($1.364 million). In the absence of any Central Government cost sharing, it is anticipated that the municipality will have to pay 80% of this cost or 992,000 TD ($1.09 million) and that beneficiaries will pay 20% or 220,000 TD ($240,000). Based on an interest rate of 10.5% and a maturity of 15 years, the debt service for the municipality contribution to the cost of the project is 134,000 TD ($148,000.) The proportion of this to the current revenues of a sample of 3 municipalities in the Greater Tunis area (Ben Arous, Megrine and Rades) varies between 11% and 13%.

In the case of Meghrine, the most indebted of the three municipalities, the ratio of debt service to current revenues without any improvement in tax collection, would increase from 4.6% to 15.6%. While this is still below the generally accepted ratic of 20%, it would represent a daunting threeand one-half fold increase in debt service. As such, it should prove to be an important test of the central policy question, the degree to which municipalities seek and are able to assume control over their finances and provision of services. One should note that the debt service resulting from a loan made under the proposed program could be offset by an increase in revenues of about $4.64 per capita which amounts to a 13% increase over current levels.

(d) Cost Recovery and ONAS Tariff Schedules

ONAS was created in 1974. It is charged with the operation, maintenance renewal and extention of sewer systems in urban areas delimited by decrees. Currently ONAS operates a network of 4380 kms, 24 sewer treatment stations and 180 pumping stations and manages a portfolio of 365,000 users, equivalent to 63% of the urban population. Since its creation ONAS has invested 290 million TD or approximatly $320 million. The financing of these investments has been as follows:

- 60% state financing
- 28% foreign borrowing
- 10% self financing
- 2% beneficiary participation and other sources.

ONAS has adjusted its tariffs eight times since its creation, the last of which took place in October 1989. The tariff adjustments are designed to reduce ONAS financial dependency on the state and to allow it to contribute a more substantial part of its investment needs. The evolution of the rates has been as follows:

Users	Discharge level	1975		1989	
	m3 per Quarter	Fixed rate TD per Quarter	Variable rate Mil/m3	Fixed rate TD per Quarter	Variable rate Mil/m3
Households	0 to 20			1.05	5
	21 to 40			1.05	45
	41 to 70		8	1.95	85
	71		8	3.5	152
Industries	Not connected		15		15
	Low pollution		8	3.5	152
	Med pollution		23	3.5	200
	High pollution		23	3.5	235
Hotels			58.5	3.5	280

The sites to be rehabilitated under the proposed program taken individually or as a whole constitute a very small proportion of ONAS users. The average neighborhood contains about 1000 users or about 0.3% of ONAS's total users. Furthermore, the rehabilitation works to be undertaken under the proposed program will positively affect the ONAS maintenance and operational budgets, the rehabilitated network being easier and cheaper to operate and maintain than at present.

C. ECONOMIC AND DEBT RISK ANALYSIS

Tunisia's economic situation and progress in line with structural adjustment is discussed at length in USAID/Tunis' Assistance Management Plan. According to this document, structural adjustment reforms are working and Tunisia is on the move. Economic growth has resumed, with the balance of payments and government budget accounts now stablilized. Exports are up by 35 percent and private investment had expanded by 20 percent in 1990. Tunisia suffered a delay in this upward economic trend during the Gulf crisis, but has since resumed positive economic growth. Progress has been made in changing factor prices to encourage greater labor use, and in developing incentive systems to favor tradeable goods. The role of the public sector in the economy has decreased, the inflation rate of 6.5% is moderate, relative price stability has been maintained and when exogenous factors are considered, reasonable growth has taken place.

Nonetheless, there are still considerable problems to be faced. Drought in three of the last six years, heavy rains and flooding another year and an epidemic of hoof and mouth disease have all taken an economic toll. While structural adjustment remains on track, there have been slippages in implementing some of the necessary reforms this past year. As actions required to maintain the pace of structural adjustment become more difficult, further schedule delays may occur. Despite these problems, Tunisia's overall progress in implementing its structural adjustment program during the 1986-89 period is considered to have been quite good.

A debt risk analysis was carried out in conjunction with a recent Housing Guaranty borrowing (HG-004B auctioned July 1990). This analysis showed that although total debt had increased, short-term debt is minimal and the average interest rate for medium and long term debt had declined. The World Bank was quoted to the effect that Tunisia's credit rating remains high and continues to be one of the best in Africa. The IMF also reported that Tunisia has consistently met debt service payments at the original due dates. In addition, Tunisia is not negotiating with either the Paris or London Clubs, has not rescheduled debt, and does it anticipate doing so. It is current on HG and other commercial and official debt and is operating under a WB/IMF supported structural adjustment program which has been successful to date. Based on all the relevant factors, the recently completed debt risk analysis concluded by stating that Tunisia is an acceptable candidate for further US assistance under the Housing Guaranty Program.

The debt carrying capacity of municipalities in Tunisia is also quite good. In the absence of the proposed program the debt service ratios of three Ben Arous municipalities over the next ten years varies from a low of 1.6 percent to a one year high of 8.9 percent of recurrent revenues.

Because municipal tax effort is weak, only about 50% of taxes owed are collected. This leaves considerable room for improvement. Prior AID experience with municipal finance in Tunisia has shown that municipal tax collection can be increased significantly at relatively minor cost. Technical assistance will be provided in conjunction with the HG-004D program to improve tax collection performance in participating municipalities.

To briefly summarize, overall growth in Tunisia's economy has resumed, government budget accounts have stabilized, the role of the public sector has decreased by selling off state enterprises to the private sector, and private sector investment has subsequently been expanding. The inflation rate remains moderate and relative price stability has been maintained.

D. SOCIAL SOUNDNESS ANALYSIS

The design of this supplementary Housing Guaranty program takes into account a variety of basic socio-economic factors related to urban conditions in Tunisia. These factors include:

- disparities in access to urban shelter services and maintenance, particularly in public sector housing projects and low income neighborhoods

- limited capacities of municipalities to provide a satisfactory level of urban services to their populations.

- greater demand for urban shelter services by the poor and increasing pressure on municipalities to respond to these demands;

In 1989, Tunisia's population of 7.9 million inhabitants was already highly urbanized with 60% of the residents living in urban areas. Urban growth rates were 3.0% per annum compared to an overall growth rate of 1.9% according to INS per annum. Roughly 83% of Tunisia's GDP was produced in urban areas.

Urban growth has been particularly important in the District of Tunis and along the coast from Bizerte to Sfax. Larger cities are growing at a faster rate than the national population, essentially because migrants continue to seek employment and other opportunities in these areas. With this growth has come increased demand for public services and infrastructure, shelter and utilities, and related environmental problems caused by inadequate sewage and solid waste, disposal and management services.

During the last two decades, the public sector produced a very large number of housing units. Because projects were designed and implemented quickly and the choice of sites not always ideal, many of these projects present difficult infrastructure problems today. The initial benefit to municipalities of having public sector housing projects has now turned into a burden and source of difficulties.

The upgrading of infrastructure in public sector housing projects therefore, has been proposed as a starting point for this program. These projects have varying degrees of problems with the major ones involving inadequate or deficient sewers, stormwater drainage and roads.

The proposed Housing Guaranty program is aimed at improving living conditions in these and other eligible low income neighborhoods. It will fund activities to upgrade sanitation networks to ONAS standards and improve storm water drainage and road networks to the point where the appropriate entities will take over their maintenance. This program is only part of the Tunisian Government's broader policy of upgrading substandard urban neighborhoods. Its implementation is expected to have a positive social impact by bringing about improvements that meet the expressed needs of the population.

Major benefits from this program will include improved sanitary and health conditions in a number of low income neighborhoods. Housing Guaranty guidelines require that this program be targeted to urban neighborhoods where resident household incomes are below the established median. One of the initial activities in identifying eligible projects will be to verify that household incomes correspond to AID criteria.

1. <u>Information on Public Sector Housing Projects Proposed for Upgrading</u>

   A household survey of some 32 public sector housing sites was carried out in the Fall of 1984 in order to obtain information about population characteristics and the kinds of infrastructure problems experienced within these neighborhoods. The number of households surveyed in each site are shown in Table V. Data were collected on household size, occupation of the head of household, household income and expenditure, problems with housing, and willingness to pay for planned improvements. The surveys were, however, conducted with uneven quality. For this reason, their results are not extremely precise, and should be considered only in terms of establishing initial guidelines for the program. Once a definitive list of eligible project sites or neighborhoods has been determined, follow up surveys will be needed to verify both income levels and the capacity and willingness of residents to pay for improvements.

2. Description of a Sample of Public Sector Housing Sites and Profile of their Population

A preliminary sample of potential sites for such a program includes a number of SNIT projects that were identified in 1984 as being seriously deficient in infrastructure. After reviewing existing documentation, conducting a number of site visits and meeting with municipalilty officials, this list has been reduced to 14 sites. Site visits have shown in fact, that a few sites have been improved, while others continue to deteriorate.

Three basic types of project site exist within this group of public housing projects: those having only very rudimentary individual housing units on small plots which are called "sub-urban"; those that include only more expensive apartment type units called "economical"; and those that have a mixture of both.

(a) Sites having only Sub-Urban Type Housing Units

Nine of the 32 sites include only sub-urban type housing units. They are characterized by what were initially relatively low standards of living and housing conditions. At the time that they were built, a typical "sub-urban" housing unit consisted of two rooms, a small kitchen and a WC. Most of these units are owner occupied and many have been expanded and/or improved since they originally were built more than 10 years ago. Most household incomes in these sites in 1984 were below the median income for the Greater Tunis area which is used as a referent for this program. Virtually all these sites therefore, should be eligible for financing under the HG-004D program. In 1984, median incomes in these sites ranged from 112.5 to 187.5 TD per month compared to the Greater Tunis Area median income of 174 TD per month.

In addition, sub-urban sites are relatively densely populated with an average household size of 6 per household. Since a substantial number of owners also have built upper floors to be used as rental units, densities and accompanying demands on infrastructure are greater than planned in the original project. Predominant occupations of the residents in these neighborhoods are worker, day-worker and employee, with unemployment in two sites reaching levels as high as 14% in 1984.

With respect to the type of infrastructure and housing problems, most sub-urban sites suffer from problems related to storm-water drainage and a few have serious problems with the sewer network.

(b) Mixed Sites

Mixed sites combine "sub-urban" housing with clusters of "economical" housing or apartment units. There were 15 sites on the survey list with this combination of housing units. Economical housing, which originally cost almost twice as much as sub-urban housing units, was sold to families who initially could afford to invest proportionately more in their housing.

Original standards and living conditions also were higher in these neighborhoods. With more limited possibilities of expansion and improvement however, this situation has changed. Income information in 1984 showed that in 75% of the sites, households had monthly incomes that were less than the estimated median. Predominant occupations were once again, worker, day-worker, and employee. In some of the clusters of economical housing however, a greater prevalence of mid-level workers was observed.

These neighborhoods are experiencing equally serious problems from deficiencies in urban infrastructure. Four sites reported flooding from oueds, while problems with storm water drainage were a major concern in most of the others.

(c) Sites with Only Economical Housing

The 8 sites having only economical housing originally had the highest standards for housing conditions among the three types of sites discussed here. At the time of the survey, median incomes ranged from 175 to 243 TD per month which put them somewhat above the eligible criteria for this program. Households were also smaller with only around five members per household. Most household heads were employees or mid-level workers and teachers. However, these communities may be eligible for the program and will be reviewed on a case-by-case basis.

In regard to infrastructure problems in these neighborhoods, only one site was seriously affected by flooding, while most of the others experienced problems with their sewer networks and storm water drainage.

3. Other Possible Neighborhoods to be Upgraded

Although public housing projects that suffer from deficient infrastructure have been a concern to both national and local governments for some time, discussions with municipal officials have indicated considerable interest in providing and improving infrastructure for other types of low income neighborhoods. This is particularly true for neighborhoods in which residents have built housing units out of solid construction materials but where formal approval of the subdivision was not obtained. As a result these neighborhoods have not been provided with adequate urban infrastructure and services. Because they essentially house low income families, they too would be eligible for infrastructure upgrading under this program.

4. Women in Development

USAID/Tunisia believes that the most effective way to assist women is by "mainstreaming" them in the development process. Therefore, the use of gender analysis, in order to "(1) achieve a more comprehensive understanding of the issue or issues being studied; (2) contribute more effectively to ensuring equal access by males and females; and, (3) monitor the effectiveness of gender-disaggregated program impacts," is a first step in understanding differences between men and women in society. Based then on firm data, projects can include any specific components necessary to further Agency WID objectives.

The proposed project at its most basic level, promotes the delivery of urban infrastructure on a self sustaining basis. In support of the Mission's WID approach, RHUDO/NENA will collect gender-disaggregated data on program beneficiairies.

At a different level, the project also seeks to improve municipal capacity to plan, manage and maintain urban infrastructure. Hence, RHUDO/NENA will also, when assessing the technical assistance requirements of the municipalities involved, seek to incorporate Women in Development principles. Particular emphasis will be given to seeing that the development impacts of their municipal works are neutral or positive on females.

E. ADMINISTRATIVE ANALYSIS

1. Municipalities

Despite the fact that the GOT has officially adopted a policy of decentralization since the mid-1980's, the role of municipalities in Tunisia is still quite weak. Direct municipal responsibilities currently include only the provision of such services as building permits, maintaining local roads, street lighting and open space, some sewage maintenance and refuse collection. Administrative, technical, financial and planning functions are shared or subject to supervision by national-level entities, as are such activities as water supply/distribution and major road, sewer and land development projects. With the recent municipal elections and tentative steps toward greater decentralization at the governorate level, municipalities are destined to play a more important role in the future development of the country.

The general level of municipal management capacity remains relatively low in terms of both human resources and management tools. Despite very high staffing costs, municipalities are generally short of human resources. This paradoxical situation is explained by the discrepancy between staff skills and the real needs of local Governments. The laws limiting the number of professional staff employed by each municipality and the supervisory authorities' control over recruitment discourage the recruitment of highly qualified staff in favor of the unskilled. Most municipalities do not have enough technical and administrative staff, and in many cases have fewer than the number permitted by law.

The regulations governing recruitment are not the only cause of the inadequacy of municipal staff. Qualified administrative and technical staff are not attracted to municipal positions because they do not offer the same benefits, in terms of promotion and bonuses for example, as do posts in the central Government. In addition, the institutional weakness of municipalities in terms of operational autonomy and relationships with other institutions creates an environment unlikely to attract high-caliber technical and administrative personnel.

Since 1985, however, municipalities are gradually introducing more rational management techniques. Computerization for example, has enabled a number of municipalities to improve the execution of day-to-day management and administrative activities, and in some cases, to substantially improve the collection of property taxes.

As municipalities take a more active role in the development of the areas under their jurisdiction, this process of modernizing management methods and improving the skills of municipal staff will continue. A major focus on hiring better qualified employees is needed, with one of the first steps being a revision of the rules that currently apply to municipal staff. Municipal employees should enjoy the same promotion opportunities and benefits as other public sector employees. Staff training and retraining programs should be organized for municipal staff.

The recently completed Urban Implications Study provides a prototypical organizational chart and staffing pattern for cities in the 20-50,000 population range (the municipality of Ben Arous for example, is slightly larger). The typical technical division, with responsibility for managing city property and infrastructure, as well as for overseeing local public works project, should have a workforce of 71, of which 5 would be senior and trained personnel.

With respect to their capacity to implement this program, the municipalities in the greater Tunis area are better positioned than most. In general, they are better staffed and they have the further advantage of being able to access professional assistance from the District of Tunis or from ARRU.

While there are clearly small municipalities without the "threshold" capacity to participate in the program, in general the project will follow a practice of self-selection. Technical assistance will be available on an as-needed basis from ARRU and municipal technical staffs should have little difficulty in providing the overall direction. They will contract with the private sector firms to design, construct, and supervise these relatively straight forward projects. In fact, the program should provide an opportunity to both use and enhance their skills.

2. <u>CPSCL</u>

The Caisse des Prets et de Soutien aux Collectivites Locales (CPSCL) was created by Law 75-37 of may 14, 1975 as a legally autonomous administrative agency in charge of the government funds to municipalities. The CPSCL receives most of its funds from the FCCL, and has been lending to municipalities for (a) the acquisition of goods and services (five year terms at 4%), (b) revenue generating investments (10 years at 4%), and (c) non-revenue producing local infrastructure (20 years at 2%). Until its restructuring, it operated like a cashiers window; all its decisions were made by the General Directorate for Local Government in the Ministry of Interior, the supervisory body of the CPSCL.

Since its origin, the CPSCL has not worked properly because it was not effectively staffed or structured. This had resulted in the general abandonment of the CPSCL, to the point that its board had not met in several years and it maintained a staff of only three persons. It lacks a proper accounting system and has had difficulties in preparing loan amortization tables in a timely manner. Loan recovery has also been slow.

According to Decree 92-688 of April 16, 1992 the CPSCL is now administered by a board presided over by the Minister of Interior and is composed of representatives of MOI, MOF, MEH, the National Federation of Tunisian Cities and the Central Bank. The board approves its program of activities, its annual budget, and its financial statements. The Director General carries out the decisions taken by the Board, and generally assures the CPSCL's administrative, financial and technical management. In the coming months, it is the intention of the GOT to place the CPSCL on a firm managerial and technical foundation, properly staffed to handle its increasing responsibilities as the Municipal Development Authority for the Eighth Plan.

3. ARRU (Urban Rehabilitation and Renewal Agency)

L'Agence de Rehabilitation et de Renovation Urbaine (ARRU) was created in 1981. It is chartered as a public industrial and commercial enterprise with a considerable degree of financial and decision autonomy. The ARRU is charged with upgrading below standard housing sites, extending services for neighborhoods not so equipped and renovating or building new housing. ARRU does not have its own investment budget. It usually operates as a principal on behalf of municipalities or ministries. Its operating budget is provided by the state and accordingly it does not charge for the services it extends. Finally ARRU acts mainly as a Coordinator (maitre d'ouvrage délégué). It contracts all works and studies to private and public firms and does not have any in house production capacity.

Since its creation ARRU has accumulated a broad experience with urban upgrading and rehabilitation project. It assumed the implementation responsibilities for overseeing the IBRD 3rd and 4th urban projects totalling $47 million in rehabilitation components. This is in addition to other projects financed by the state and by the municipalities through the Caisse de Soutien aux projets des Collectivités locales (CPSCL), the Fonds National de Développement municipal, and the FNAH (the centrally managed fund financed by a property tax add-on).

In addition to overseing the preparation and the implementation of urban renewal and rehabilitation projects ARRU also acts as agent of the state and the municipalities for the identification of urban projects and provides, treasury permitting, technical assistance to municipalities for the identification of urban projects. In this capacity ARRU recently completed two such activities encompassing more than $100 million of investment in over 100 neighborhoods.

4. ONAS (National Sanitation Office)

The Office National d'Assainissement (ONAS) was created in 1974. It is charged with the operation, maintenance, renewal and extension of the sewer systems in urban areas throughout the country, as delimited by decrees. ONAS has a regionalized organizational structure with operational centers in Tunis, Nabeul, Sousse and Sfax covering respectively the Greater Tunis area, the North, the Center and the South. The current tendency is towards increased decentralization and deconcentration. With a staff of 2020 agents ONAS operates a network of some 4380 kms, 24 sewer treatment stations and 183 pumping stations serving 365,000 users in 56 municipalities, and some 420 hotels. During its 16 years of existance ONAS has invested a total of 290 million TD or about $320 million. Current levels of investment approach $60 million per year. ONAS relies heavily on Government contribution (60%) and foreign borrowing to finance its investment (28%). Despite sustained user rate increases (8 increases since the creation of the ONAS). ONAS has only been financing about 12% of its investment program from user charges. Revenues from user charges currently are only 50% of the total operating charges. Other revenues to offset operating charges come from the Fond Commun, a National Fund for financing municipal budgets (19%), and compensation revenues 17%. The compensation revenues are raised as a levy of 40 millimes per m3 of drinkable water and is paid by the state. In 1989 ONAS made TD 3.6 million deficit and is exected to had a TD 3.4 million deficit in 1990. According to current projection ONAS will have a surplus of TD 2.9 million in its operating account in 1991 that will result from new user charges adjustments.

F. ENVIRONMENTAL ANALYSIS

An extensive environmental analysis was accomplished as part of the design process for HG-004B. It reviewed Tunisian policies and procedures with regard to wastewater collection, treatment, disposal and re-use, as well as storm and surface water drainage and disposal. In addition, local road and sidewalk standards were reviewed in relation to the sites and services sub-program.

The results of this environmental analysis showed that the procedures and technology in place in Tunisia were both appropriate and acceptable. Similar practices will be applied to projects to be financed under this Housing Guaranty supplement. Both ONAS and the participating municipalities will take full responsibility to assure that all environmental standards are maintained. A major benefit of this particular program is that sewers requiring rehabilitation will come under full ONAS operation and maintenance services for the first time.

VI. CONDITIONS AND COVENANTS

In addition to standard Conditions Precedent and Covenants in the HG-004 Program Agreement, the following CPs and Covenants will be included in the Program Agreement Amendment for this supplement.

A. CONDITIONS PRECEDENT TO A FIRST DISBURSEMENT

The following CP's will be fulfilled prior to a first disbursement of HG-004D funds.

- Signature of HG-004D amendments to the Shelter Program Agreement.
- Achievement of policy benchmarks as scheduled in the Policy Action Plan.
- Presentation of Investment Plan acceptable to USAID.

B. CONDITIONS PRECEDENT TO A SUBSEQUENT DISBURSEMENT

The following CPs will be met prior to a subsequent disbursement of the HG-004D funds.

- Achievement of policy benchmarks as scheduled in the Program Action Plan;
- Presentation of an Investment Plan acceptable to USAID.

C. COVENANTS

The following covenants will apply to this program.

- The Tunisian Government will complete all eligible site work initiated under the program;
- The Government of Tunisia will maintain adequate and qualified professional staff to administer the program and provide assistance to municipalities as necessary for its success.

GUARANTY AUTHORIZATION
PROJECT No. 664-HG-004D

PROVIDED FROM: Housing Guaranty Authority

FOR: The Government of Tunisia

Pursuant to the authority vested in the Mission Director of USAID/Tunisia by the Foreign Assistance Act of 1961, as amended (FAA), and delegations of authority issued thereunder, I hereby authorize the issuance to eligible U.S. Investors (Investors) acceptable to A.I.D. of guaranties pursuant to Section 222 of the FAA of not to exceed Ten Million Dollars (U.S.$10,000,000) in face amount. The guaranties shall assure against losses (of not to exceed One Hundred Percent (100%) of loan investment and interest) with respect to loans, including any refinancings thereof, made to finance housing programs in Tunisia.

These guaranties shall be subject to the following terms and conditions:

1. Term of Guaranty: The loans may extend for a period of up to thirty years (30) from the date of disbursement and may include such terms and conditions as shall be acceptable to A.I.D. The guaranties of the loans shall extend for a period beginning with the disbursements of the loans and shall continue until such time as the loans have been paid in full.

2. Interest Rate: The rate or rates of interest payable to the Investor pursuant to the loans shall not exceed that prescribed, pursuant to Section 223(f) of the FAA, and shall be consistent with rates of interest generally available for similar types of loans made in the long-term U.S. capital markets.

3. Government of Tunisia Guaranty: The Government of Tunisia shall provide for a full faith and credit guaranty to indemnify A.I.D. against all losses arising by virtue of A.I.D.'s guaranties to the Investor or from non-payment of the guaranty fee.

4. Fee: The fee of the United States shall be payable in dollars and shall be one-half percent (1/2%) per annum of the outstanding guarantied amount of the loans plus a fixed amount equal to one percent (1%) of the amount of the loans authorized or any part thereof, to be paid as A.I.D. may determine upon disbursement of the loans.

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5. Other Terms and Conditions: The guaranties shall be subject to such other terms and conditions as A.I.D. may deem necessary.

George Carner

George Carner
Mission Director
USAID/Tunisia

9-27-90
Date

GUARANTY AUTHORIZATION

Program No. 664-HG-004D
(Authorization No. 664-HG-010)

2 8 AUG 1992

PROVIDED FROM: Housing Guaranty Authority

FOR : Government of Tunisia

Pursuant to the authority vested in the Mission Director by the Foreign Assistance Act of 1961, as amended (FAA) and the delegations of authority issued thereunder, I hereby authorize the issuance to eligible U.S. investors (Investors) acceptable to A.I.D. of guaranties pursuant to Section 222 of the FAA of not to exceed United States Dollars Five Million Only (U.S. $5,000,000) in face amount. The guaranties shall assure against losses as provided in the Housing Guaranty Standard Terms and Conditions (22 C.F.R. Part 204) with respect to loans, including any refinancings thereof. These guaranteed loans shall be made to the Government of Tunisia (Borrower) to support the provision of shelter-related infrastructure for the urban poor.

These guaranties shall be subject to the following terms and conditions:

1. Term of Guaranty: The loans and any refinancing thereof shall extend for a period of up to thirty (30) years from the date of each disbursement of the loans and may include a grace period of up to ten (10) years on repayment of principal, a grace period on repayment of interest, and such other terms and conditions as are agreed to by the Borrower and the Investor, subject to the approval of A.I.D. The guaranties of the loans shall extend for a period beginning with the first disbursement of the loans and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loans.

2. Interest Rate: The rate or rates of interest payable to the Investor pursuant to the loan shall not exceed the allowable rate of interest prescribed pursuant to Section 223 (f) of the Foreign Assistance Act of 1961, as amended (FAA), and shall be consistent with the rates of interest generally available for similar types of loans made in the long-term U.S. capital markets.

3. Government of Tunisia Guaranty: Prior to disbursement of any loan amounts pursuant to this Guaranty Authorization, a written guaranty to indemnify A.I.D. against all losses arising by virtue of A.I.D.'s guaranties to the Investor or from non-payment of the A.I.D. fee shall be provided in a form satisfactory to A.I.D. by the Government of Tunisia (or a financial institution authorized by the Government of Tunisia to provide such a guaranty and approved by A.I.D.).

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4. Fee: The fee of the United States shall be payable in U.S. dollars and shall be equal to one-half of one percent (1/2%) per annum of the outstanding guarantied amount of the loans plus a fixed amount equal to one percent (1%) of the amount of the loans authorized or any part thereof, to be paid as A.I.D. may determine upon disbursement of the loans.

5. Other Terms and Conditions: The guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary.

In accordance with the provisions of the Federal Credit Reform Act of 1990, I hereby authorize the obligation of United States Dollars Six Hundred Ten Thousand ($610,000) to cover the subsidy cost of Authorization No. 664-HG-010 and for use of United States Dollars Five Million ($5,000,000) in guaranty authority. Action must be taken to obligate these funds by no later than August 31, 1992 by issuance of a Letter of Advice. The guarantied loans must be disbursed by no later than September 30, 1997, after which time the obligated funds expire.

James A. Graham

James A. Graham
Director
USAID/Tunisia

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ANNEXES

ANNEX C

"Available in Program Files"

STATUTORY CHECKLIST

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ANNEX C

THE HOUSING GUARANTY PROGRAM

STATUTORY CHECKLIST

NAME OF COUNTRY

PROJECT NO. -HG-

ANSWER YES/NO PUT PP PAGE REFERENCES AND/OR EXPLANATIONS WHERE APPROPRIATE

A. General Criteria Under HG Statutory Authority.

Section 221(a)

Will the proposed project meet the following criteria.

(1) is intended to increase the availability of domestic financing by demonstrating to local entrepreneurs and institutions that providing low-cost shelter is financially viable; — N/A

(2) is intended to assist in marshalling resources for low-cost shelter; — Yes, pages 9-14; Annex H

(3) supports a pilot project for low-cost shelter, or is intended to have a maximum demonstration impact on local institutions and national policy; and, — Yes, pages 9-14; Annex H

(4) is intended to have a long-run goal to develop domestic construction capabilities and stimulate local credit institutions to make available domestic capital and other management and technological resources required for effective low-cost shelter programs and policies. — Yes, pages 9-14; Annex H

Section 222(a)

Will the issuance of this guaranty cause the total face amount of guaranties issued and outstanding at this time to be in excess of $2,558,000,000? [not applicable for FY '93 appropriation]. — N/A

Section 222(b)

Will the proposed guaranty result in activities which emphasize:

(1) projects providing improved home sites to poor families on which to build shelter, and related services; or — N/A

(2) projects comprised of expandable core shelter units on serviced sites; or — N/A

(3) slum upgrading projects designed to conserve and improve existing shelter; or — Yes, pages 9-14; Annex H

(4) shelter projects for low-income people designed for demonstration or institution building; or — N/A

(5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor? — Yes, pages 9-14; Annex H

Section 222(c)

If the project requires the use or conservation of energy, was consideration given to the use of solar energy technologies, where economically or technically feasible? — N/A

Section 223(f)

Is the maximum rate of interest allowable to the eligible U.S. investor, as prescribed by the Administrator, not more than one percent (1%) above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development? — N/A

Section 223(j)

[For FY '93 appropriation, not applicable to programs for Eastern Europe]

(1) Will the proposed Housing Guaranty be coordinated with and complementary to other development assistance in the host country? — Yes, page 15

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(2) Will the proposed Housing Guaranty demonstrate the feasibility of particular kinds of shelter or of financial or other institutional arrangements? — Yes, pages 9-14; Annex H

(3) Is the project designed and planned by A.I.D. so that at least ninety percent (90%) of the face value of the proposed guaranty will be for shelter suitable for families with income below the median urban income for housing in urban areas, in the host country? — Yes, pages 10-14

(4) Will the issuance of this guaranty cause the face value of guaranties issued with respect to the host country to exceed $25 million in any fiscal year? — No

(5) Will the issuance of this guaranty cause the average face value of all housing guaranties issued in this fiscal year to exceed $15 million? — No

B. Criteria Under General Foreign Assistance Act Authority.

(1) Does the host country meet the general criteria for country eligibility under the Foreign Assistance Act as set forth in the country eligibility checklist prepared at the beginning of each year? — Yes

(2) Is there any reason to believe that circumstances have changed in the host country so that it would now be ineligible under the country statutory checklist? — No

ADD:

ANNEX D

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E.O. 12356: N/A
TAGS:
SUBJECT: PRC REVIEW - TUNISIA HG-004(D) AMENDMENT

Project Paper Citation

1. SUMMARY: THE PRC NOTED THAT THIS LAST AMENDMENT TO HG-004 WILL SERVE AS A BRIDGING MECHANISM BETWEEN CONVENTIONAL INFRASTRUCTURE DEVELOPMENT AND POLICY RELATED REFORMS. THE REHABILITATED SEWER SYSTEMS WILL BE MAINTAINED BY ONAS ON A FULL COST RECOVERY BASIS AND MUNICIPALITIES WILL GAIN ACCESS TO LONG TERM FINANCING AT MARKET RATES OF INTEREST. THE LATTER IMPLIES IMPROVEMENTS IN THE TAX BASE AND COLLECTION PROCEDURES. THE MISSION IS DELEGATED AUTHORITY TO DEVELOP AND APPROVE THE PP SUPPLEMENT (USD 15.0 MILLION) FOR HG AUTHORIZATION IN FY 90.

2. THE PRC, CHAIRED BY PD DEPUTY DIRECTOR ROBERT NACHTRIEB, WAS HELD FOR SUBJECT HG ON JUNE 9 AND WAS ATTENDED BY PRE/H REPRESENTATIVES AND RHUDO DIRECTOR DAVID OLLINGER. THE PID-LIKE CABLE WAS DISCUSSED IN THE CONTEXT OF THE TUNISIA AMP AND USAID DIRECTOR GEORGE CARNER PROVIDED ADDITIONAL BACKGROUND. IT WAS POINTED OUT THAT THIS WAS THE LAST AMENDMENT FOR HG-004 AND THAT IT BASICALLY SERVES AS A BRIDGING MECHANISM BETWEEN

HOUSING INFRASTRUCTURE, E.G. SEWERS AND ROADS AND IMPROVEMENTS IN MUNICIPAL FINANCE. THE FOLLOWING ISSUES AND CONCERNS WERE RAISED DURING THE REVIEW.

3. DONOR COORDINATION: THE PRC NOTED THAT THE IBRD WAS PLANNING A MUNICIPAL DEVELOPMENT PROJECT WHICH WOULD FINANCE SIMILAR INFRASTRUCTURE BUT WOULD USE THE LOCAL GOVERNMENT SUPPORT AND LOAN FUND AS OPPOSED TO THE HG SUPPORTED HOUSING BANK. RHUDO DIRECTOR OLLINGER EXPLAINED THAT THE TWO PROGRAMS WERE COMPLEMENTARY AND IBRD WAS ALSO SUPPORTING MARKET INTEREST RATES AS THE BASIS FOR LONG TERM MUNICIPAL BORROWING. DONOR COORDINATION BETWEEN AID AND IBRD HAS BEEN CLOSE IN THE PAST AND WOULD CONTINUE EVEN THOUGH RESPECTIVE DONORS WOULD BE WORKING WITH DIFFERENT FINANCIAL INSTITUTIONS. Section II.E.

4. COST RECOVERY: THE PP SUPPLEMENT SHOULD CONTAIN AN ANALYSIS OF COST RECOVERY AND THE FINANCIAL FORMULA USED BY ONAS IN CALCULATING THE TARIFF SCHEDULE FOR Section V.B.(e)

REHABILITATED SEWERS WILL BE TAKEN OVER BY ONAS AND OPERATION AND MAINTENANCE COSTS WILL BE FULLY COVERED.

5. POLICY REFORM AND MUNICIPAL FINANCE: THE PRC NOTED THAT THE DECENTRALIZATION POLICY OF GOT DEPENDS ON DEVELOPING THE MUNICIPAL REVENUE BASE AND CAPACITY TO BORROW LONG TERM. THE HG AMENDMENT WILL DEVELOP WITHIN THE HOUSING BANK A MUNICIPAL LENDING WINDOW WHICH WILL PROVIDE LONG TERM FINANCING AT MARKET RATES OF INTEREST. MOREOVER, THE HG WILL PROVIDE ASSISTANCE TO SELECTED MUNICIPALITIES TO IMPROVE TAX COLLECTION. THE PP SUPPLEMENT SHOULD CLEARLY IDENTIFY THE IMPACT OF POLICY CHANGE IN TERMS OF RESOURCE MOBILIZATION, AT THE MUNICIPAL LEVEL FOR HOUSING SECTOR INFRASTRUCTURE. FINALLY, THE PP SUPPLEMENT SHOULD DEFINE EOPS FOR BOTH POLICY AGENDA AS WELL AS INFRASTRUCTURE IMPROVEMENTS. Section II. G.

6. INSTITUTIONAL DEVELOPMENT: THE PRC NOTED THAT BOTH THE HOUSING BANK AND ONAS HAVE EVOLVED INTO DYNAMIC AND RESPECTED INSTITUTIONS WITH AID ASSISTANCE. RECENT LEGISLATION FOR THE HOUSING BANK ESTABLISHED THE BANK AS AN AUTONOMOUS FINANCIAL INSTITUTION CAPABLE OF PROVIDING A BROAD RANGE OF FINANCIAL SERVICES. ORIGINALLY, IT HAD BEEN LITTLE MORE THAN A CONTRACT SAVINGS AND LOAN OPERATION PROVIDING MORTGAGE LOANS TO MEMBERS. THE HOUSING BANK NOW LENDS TO PRIVATE DEVELOPERS FOR CONSTRUCTION OF NEW UNITS, INCLUDING THE PURCHASE OF LAND. SIMILARLY, ONAS HAS DEVELOPED A BROADER MANDATE

V [illegible] NICAL AND ADMINISTRATIVE CAPABILITIES. THE TECHNICAL ASSISTANCE PROVIDED UNDER HG-004(B) WILL HELP CONTINUE THIS EVOLUTION BY ENCOURAGING THE HOUSING BANK TO DEVELOP NEW FINANCIAL INSTRUMENTS AND STRENGTHENING THE RELATIONSHIP BETWEEN ONAS AND THE MUNICIPALITIES.

7. CONCERNS: THE MISSION SHOULD CONSIDER THE SUITABILITY OF 8(A) FIRMS FOR PROVIDING SHORT TERM TECHNICAL ASSISTANCE TO IMPROVE MUNICIPAL BORROWING CAPACITY AT MARKET RATES OF INTEREST ETC. FINALLY, WHERE POSSIBLE, SEX DISAGGREGATED DATA SHOULD BE COLLECTED ON ULTIMATE PROGRAM BENEFICIARIES. BAKER Section V. D.

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ANNEX E

LOGICAL FRAMEWORK

Goal	Objectively verifiable Indicator	Means of Verification	Assumptions
Improved quality of shelter and related urban infrastructure for eligible beneficiaries	VIII Development Plan emphasizes delivery of urban infrastructure and improved municipal management capacity.	VIII Development Plan	GOT continues to support overall shelter and urban infrastructure goals GOT continues to proceed with decentralization process.
Purposes	**End of Project Status**		
Increase financial resources for municipal capital improvements.	CPSCL making loans based upon standard criteria	GOT and Municipal Records	MDP is implemented
Improve municipal revenue collection and cost recovery performance	Tax collection rates of target municipalities increased sufficiently to service debt on investments made during the program	GOT and municipal Records	Tunisian legal circumstances permitting such activities remain unchanged
Improve municipal capacity to undertake public works projects, utilizing private sector to plan and execute the projects	Target municipalities have capacity to manage municipal rehabilitation projects of the types undertaken by the program	GOT and Municipal Records	Municipalities and private sector remain interested in frastructure projects
Improve GOT municipal development policy planning and analysis	Data base sufficient to track MDP indicator performance	Periodic reviews	MPD is implemented

Outputs	Magnitude	Means of Verification	Assumptions
Existing infrastructure rehabilitated and informal subdivision serviced	7,500 households served	GOT Records	Municipalities seek to borrow long-term at market rates and have adequate debt carrying capacity; beneficiaries willing to contribute to project costs
Municipal staff trained in tax management procedures	5 municipalities	GOT and Municipal Records	Municipalities are willing to implement improved tax collection procedures

Inputs	Magnitude	Means of Verifications	Assumption for Achieving Outputs
1. HG Loans	US$ 15 million	RHUDO Records	GOT signs Program Agreement; GOT remains credible borrower
2. Technical Assistance Grants	US$995,000	RHUDO Records	Mission Grants available

ANNEX F

PROGRAM CASH FLOW SUMMARY

BEST AVAILABLE COPY

MUNICIPAL STRUCTURE, FINANCES AND MANAGEMENT IN TUNISIA

SUMMARY AND RECOMMENDATIONS

Because the GOT decentralization policy, that only began in 1989, has not yet produced all its effects, Municipalities are experiencing a number of problems in the institutional and financial areas and also in the management of municipal activities.

After a diagnosis of the major municipal problems, this summary recommends measures susceptible of improving the municipal system performance. It then outlines specific objective to be achieved in the framework of the HG-004D program.

I. SUMMARY

1. Municipalities in Tunisia operate within a very broad and complex institutional framework. In addition to general supervision by the Ministry of Interior, they are subject to more direct supervision by one or more national agencies. This extensive control over municipal plans, finances, infrastructure and investments appears to have retarded rather than facilitated local service delivery by making it extremely difficult and time consuming to initiate and implement development projects. Most local services are provided by national agencies. This leaves very few functions for municipalities to carry out themselves. The resulting erosion of municipal responsibility for service delivery has reduced the capacity of cities to plan and implement local development programs and has weakened their ability to recruit quality staff. The lack of qualified technical staff at the municipal level is seen as a serious constraint to development planning and implementation.

2. Municipal finance is governed by national laws and regulations and administered under strict supervision (tutelle) of the Ministry of Interior and the Ministry of Finance. Smaller municipalities are supervised by the Governor.

   Municipalities in Tunisia obtain the majority of their revenues from six basic sources. Current revenues are obtained from:

   - local taxes that include property tax, business tax, hotel tax and tax on undeveloped land; and

- fees and service charges for slaughterhouse and markets, land transactions, building, rentals, services rendered, and miscellaneous

- transfer from the FCCL

Development revenues are obtained from:

- loans and grants from CPSCL, and other specific grants.

- national aid that includes formula share and reserve funds.

- project specific national aid from the Ministry of Youth and Sports, Ministry of Public Works, Ministry of Cultural Affaires; and

Expenditures are classified under current operating expenses and capital expenditures associated with a municipality's investment program. Operating expenses make up the bulk of costs for municipal administration. Labor costs account for more than half the current expenditures. Buildings and roads comprise the majority of direct capital investments.

Municipal funds that are unexpended at the end of a fiscal year are transferred to an open account and used as a Reserve Fund for the development of municipal facilities and/or to cover future deficits. These reserves have grown steadily and potentially could be used, for example, as the ten percent local share of capital.

3. The general level of municipal management capacity remains relatively low in terms of both human resources and management tools. Despite very high staffing costs, the municipalities are short of human resources. This paradoxical situation is explained by the discrepancy between the staff skills and needs of the local Governments. The law limiting the number of professional staff employed by each municipality and the supervisiory authorities' control over recruitment discourage recruitment of high-level staff in favor of unskilled staff. Most municipalities do not have enough technical and administrative staff -- often fewer even than the maximum number permitted by the law.

   The regulations governing recruitment are not the only cause of the inadequacy of municipal staff. Qualified administrative and technical staff are not attracted to municipal posts because they do not offer the same benefits (promotion, bonuses, tec.) as posts in central government.

In addition, the municipalities' institutional weakness in terms of operational autonomy and institutional relationships creates an environment unlikely to attract high-caliber technical and administrative personnel.

Besides, Municipalities have limited knowledge of their territority: they are not yet able to assess the potentials and constraints of their territories and hence find it difficult to establish priorities for their needs;

Since 1985, however, municipalities are gradually introducing more rational management techniques. Thus, thanks in particular to the use of computers, some municipalities are substantially improving collection of the property tax and the execution of day-to-day management and administrative activities such as registration of births, marriages, deaths and payroll operations.

II. RECOMMENDATIONS

Three major areas of intervention underpin the recommendations to be proposed:

- Enhancing municipal responsibilities in the delivery of urban infrastructure and services
- Mobilizing municipal resources
- Improving municipal management

1. Enhancing Municipal Responsibilities

This should include the following major lines of action:

- consolidate and strenghthen municipal autonomy by ensuring a genuine decision-making authority to the municipalities in planning and managing their activities; in particular
- develop municipal responsibilities in the delivery of urban infrastructure and services. The municipality must understand its role in the different stages of the services delivery process -- design, planning implementation and management -- and have the ressources as well as the authority to play that part.

2. Mobilizing municipal revenues

Since the FCCL resources are declining, municipalities should more and more rely on local taxes and fees to increase their revenues and hence, to improve their credit worthiness. This involves action to:

- Improve assessment and collection of the property tax by bringing of tax roll up to par, by simplifying the assessment system and ensuring its updating, and by making the taxation system more homogeneous. Previous experiences (Kairouan, Hammam-Lif) financed under a USAID grant demonstrate that the systematic use of computers and appropriate software increases dramatically the property tax performance.

- Exploit the revenue potential of the other local taxes and fees by reforming the Tax on Undevelopped Land by increasing the fiscal base of Hotel Tax and Business Tax, and by updating the 1976 decree which regulates income from services rendered by municipalities.

- Restructure and strengthen the municipal borrowing system by improving the CPSCL or replacing it by a Municipal Financing Institution which would finance projects at real interest rates. In addition to its financial role, this new institution should provide technical assistance to municipalities

3. Improving Municipal Management

The municipalities must henceforth take an active part in the development of their territories, instead of being passive witnesses to the process, by modernizing their management methods and by improving the municipal staff skills. To that end they should:

- hire more highly qualified employees: One of the first steps that should be taken is to review the rules that currently apply to municipal staff, (Loi des Cadres). Municipal employees should also enjoy the same promotion opportunities and benefits as elsewhere in the public administration.

-Organize training and retraining programs for assisting municipal staff.

III. HG-004D SPECIFIC OBJECTIVES

The above recommendations mirror RHUDO's policy objectives in the Municipal Development area which are to strenghten the capacity of Municipalities to plan, finance, implement and maintain urban infrastructure projects.

Most of these objectives are expected to be achieved in the frame of the future RHUDO HG-005 program -- outlined in the Mission's Assistance Management program (AMP) --, which would be implemented in FY 1992, in conjunction with IBRD's Municipal Development Project, also under preparation.

Pending the implementation of such programs, and serving as a bridge between the existing infrastructure program and the HG-005, the HG-004D is pursuing the following objectives in compliance with the overall RHUDO's policy objectives in the Municipal Development area:

- Increase resources to municipalities to finance capital improvements at market interest rates.
- Improve municipal tax collection and cost recovery to repay the cost of capital improvements.
- Improve municipal capacity to plan and manage public works.
- Expand the Housing Bank's lending practices to include municipal capital improvements.

Attachment A2: HG-004D PROGRAM ACTION PLAN

GENERAL OBJECTIVES Specific Objectives	BENCHMARKS FOR DISBURSEMENT	
1. Increase the availability of resources to finance capital improvements and/or investments through municipal borrowings at financially sustainable interest rates		
1.A Establish a Municipal Development Authority (CPSCL)	1.A1 Decree establishing CPSCL's structure and resources issued; 1.A2 Head of CPSCL designated; 1.A3 Initial Budget provided; 1.A4 CPSCL staffed and operationalized; 1.A5 CPSCL staff training plan established; 1.A6 Training Plan Implementation started;	
1.B Establish financial mechanisms	1.B1 Publish criteria for composition of financing: (proportion of grant, loan and municipal contribution per type of project; Term & Conditions for providing loans prepared; 1.B2 Financial Management & Funds Flow: Develop and publish Standard Operating Procedures; 1.B3 50 Loans provided by CPSCL; 1.B4 50 Grants provided by CPSCL.	
1.C Establish role of Private Bank	1.C1 Policy analysis on methods of facilitating the provision by private Banks of direct loans to Municipalities, Private Developers or Joint Ventures.	
1.D Define Project Identification Criteria-Technical, Financial and Implementation Feasibility	1.D1 Prepare and disseminate standard forms and checklists to target municipalities; 1.D2 50 loans requests received at CPSCL 1.D3 20 completed project applications reviewed by CPSCL	
1.E CSPCL Institutional and Policy Analyses	1.E1 Policy study on CPSCL complementary Financing Models contracted;	1.E2 New Policies adopted to respond to study findings.

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GENERAL OBJECTIVES Specific Objectives	BENCHMARKS FOR DISBURSEMENT	
2. Improve municipal revenue collection and cost recovery performance for capital improvements and/or investments		
2.A Improve municipal resource mobilization	2.A1 Prepare a program for computerizing management of existing local taxes; 2.A2 Complete Policy Study on local tax reform.	2.A3 Local Tax reform approved 2.A4 Start the implementation of the Local Tax reform
2.B Improve municipal financial management capabilities	2.B1 Policy Analysis for imporving the system of central-local budget and grant allocations; 2.B3 Action Plan for Training of Municipal staff prepared;	2.B2 Introduction of analytical/ Cost accounting in a representative sample of municipalities (RSM), in particular for services to be privatized 2.B4 Implement Training Plan in a RSM.

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PROGRAMME HG-004D

PROJET DE PLAN ET DE FINANCEMENT DE L'ASSISTANCE TECHNIQUE

CTIVITES(No. de l'action à entreprendre en référence au Plan d'Action)	ORIGINE DES FONDS ($)			
	USAID/GT	USAID		GT
	DSP	PEP	Autres Programmes	
- Mise en oeuvre du programme de privatisation: Séminaires, Actions pilotes, assistance technique, etc... (3.C2/3.D1)		95,000	50,000	10,000
V - OBSERVATOIRE DU DEVELOPPEMENT MUNICIPAL				
- Mise en place de l'Observatoire et de la Base de données correspondante (4.A1)	50,000		19,000	
/ - DIVERS				
- Evaluations, revues annuelles et assistance à la coordination et la mise en oeuvre du projet HG-004D		100,000		
Total	595,000	400,000	84,000	100,000

PROGRAMME HG-004D

PROJET DE PLAN ET DE FINANCEMENT DE L'ASSISTANCE TECHNIQUE

ACTIVITES(No. de l'action à entreprendre en référence au Plan d'Action)	ORIGINE DES FONDS ($)			
	USAID/GT	USAID		GT
	DSP	PEP	Autres Programmes	
5- Etude sur l'introduction de la comptabilité analytique pour certains services municipaux (2.B2)	40,000			
6- Mise en place de la comptabilité analytique à titre expérimental dans un ERM (2.B.2)		15,000		
7- Préparation d'une Stratégie de formation municipale (2.B3)				5,000
8- Etablissement d'un Plan de Formation du personnel municipal (2.B3)	60,000			
9- Développement d'activités pilotes de formation (2.B4)		40,000	10,000	15,000
III- PARTICIPATION ACCRUE DU SECTEUR PRIVE				
1- Etude(s) sur la fourniture et le financement des infrastructures urbaines et de services + organisation d'un séminaire sur les recommandations de l'étude (3.A1)	250,000			
2- Préparation de Plans d'Investissements Communaux (PIC) pour la période du VIIIème plan (3.B1)				5,000
3- Participation du secteur privé aux études de faisabilité des PICs (3.B2)		30,000		30,000
4- Rapport sur la situation actuelle en matière de privatisation des services municipaux (3.D1)				10,000
5- Etablissement d'un programme de sensibilisation des municipalités pour une plus grande participation du secteur privé dans les projets d'investissements communaux		20,000		

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ANNEX I

ANTICIPATED TECHNICAL ASSISTANCE PLAN

PROGRAMME HG-004D
PROJET DE PLAN ET DE FINANCEMENT DE L'ASSISTANCE TECHNIQUE

ACTIVITES(No. de l'action à entreprendre en référence au Plan d'Action)	ORIGINE DES FONDS ($)			
	USAID/GT	USAID		GT
	DSP	PEP	Autres Programmes	
I- MISE EN PLACE DE LA CPSCL				
1- Plan de Développement de la CPSCL comprenant un plan de formation (1.A5)	25,000			
2- Mise en oeuvre du plan de développement et de formation de la CPSCL (1.A6)		50,000	5,000	
3- Analyses préliminaires pour faciliter l'octroi par les Banques privées des prêts directs aux municipalités (1.C1)	40,000			
4- Preparation du guide opérationnel (1.D1)				5,000
5- Séminaires de formation et de sensibilisation au guide opérationnel (1.D1)		30,000		
6- Analyses de modèles complémentaires de financement de la CPSCL (1.E1)	50,000			
II- FINANCE ET GESTION MUNICIPALES				
1- Etude sur la réforme de la fiscalité locale (2.A2)				10,000
2- Programme de sensibilisation et d'information sur la nouvelle fiscalité locale (2.A2)	40,000			
3- Préparation et mise en oeuvre d'un programme informatisé des taxes locales à travers des actions pilotes (2.A1)		20,000		10,000
4- Analyse du système d'allocation budgétaire et des subventions entre les niveaux central et local (2.B1)	40,000			

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GENERAL OBJECTIVES Specific Objectives	BENCHMARKS FOR DISBURSEMENT	
3. Improve municipal capacity to undertake public works projects using the private sector to design, manage and execute the projects		
3.A Strengthen municipal capacity for the provision and financing of urban infrastructure	3.A1 A serie of studies contracted to conduct a comprehensive Policy study on the provision and financing of urban infrastructure and services; in particular a study on cost recovery systems for municipal level investments;	3.A2 Studies completed.
3.B Develop multi-year municipal investment program (PIC)	3.B1 Preparation of a Five-Year Investment Program on the basis of guidelines from GOT's Eighth/Plan; 3B.2 Preparation of methodology for feasibility-based PIC's;	
3.C Encourage private sector participation in the design, management and execution of urban development projects.	3.C1 Preparation of a municipal awareness program on a greater involvement of the private sector in the design, supervision and implementation of municipal development projects;	3.C2 Implementation of the municipal awareness program
3.D Encourage private sector provision and delivery of urban infrastructure	3.D1 Implement privatization activities in a RSM with emphasis on Solid Waste Management.	
4. Improve the GOT's policy planning and analysis capacity with respect to Municipal Development.		
4.A Establish a structure to plan, monitor, coordinate and evalute Municipal Development interventions	4.A1 Establish a data base aiming at: (i) measuring the impact and achievements of GOT's objectives with regard to Municipal Development; and (ii) evaluation of Municipal Development projects including HG-004D.	

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