

Tunisia FY 1988 CIP PAAD
ISSUES PAPER

During the Project Review Committee (PRC) meeting held on December 30, 1987, two important issues were identified. These were communicated to the Mission in Ref (A) and responded to in Ref. (B). Included here are statements of the problems and discussions of them. Certain errors in the PAAD were identified, concerning the checklist and the Zorinsky Amendment. This memorandum is therefore subdivided into Issues and Adjustments.

I Proposal Summary

The Program Assistance Approval Document (PAAD) proposes an \$8 million ESF grant to Tunisia for the purchase of corn (or perhaps soya meal pellets), used in animals feeds in Tunisia. this grant will help alleviate a balance of payments deficit brought on by reduced investment flows, rising debt service payments, and insufficient exports of goods and services to cover essential imports.

The AID program and the CIP continue to support the thrust of the Structural Adjustment Program, using resources to strengthen initiatives focused on liberalization of the agricultural and private sectors and on a reduced role of the GOT in the Tunisia economy. Local currency generated by the program will be deposited into a special account. These funds will be programmed by a disbursement committee, with USAID participation, to assist with a number of activities which support the Structural Adjustment Program, contribute to a growth in employment, domestic production, and assist Tunisia's agricultural and private sectors.

II Issues

1. Problem: The PAAD does not delineate detailed benchmarks or indicators on progress of reforms concerning certain specific policy measures. The FY 1988 CIP as per guidance in the approval of the FY 1987 CIP PAAD, "should include specific targets and benchmarks on policy reform measures identified through analyses and recommendations generated by APIP (664-0343) and other activities."

Discussion: While the Program Assistance Approval Document (PAAD) for FY 1988 clearly supports the Tunisia Structural Adjustment Program (SAP) and includes considerable discussion of the current status and progress to be made, targets and benchmarks are linked to major macro-economic indicators and not to specific policy reform measures. The Mission strongly feels that this approach is the most appropriate. APIP (664-0343) has not yet generated the analyses and has not yet

resulted in identification of policy reform measures. Thus, no specific benchmarks and indicators from APIP have been formulated. The PAAD identifies targets and benchmarks which include the following:

Growth, in real GDP	3-4 percent
Current Accrued Deficit (percentage of GDP)	5-6 percent
Budget Deficit (percentage of GDP)	3.5 percent
Gross Official Reserves (months of imports)	2 months
External Debt (percentage of GDP)	63.8 percent
External Debt Service (percentage of current receipts)	27.9 percent

As benchmarks of economic progress under the SAP, certain participants in the PRC were satisfied that they are sufficient for the purposes of the CIP.

Other participants in the PRC, however, felt that the benchmarks of progress in the PAAD are very general and would like the Mission to consider certain indicators showing progress in areas of high relevance to AID's policy agenda. These indicators have been extracted by AID/W personnel from the Agriculture Strategy Statement and the March, 1987 Action Plan. These measures of progress are not conditions of AID assistance, but are benchmarks showing improvements brought about by the SAP. They will provide more specific guidelines on GOT performance under the SAP in relation to the areas which are of greater interest to AID. These areas have direct impact on the private and agriculture sectors and indicate quantifiable measures of progress in specific sub-sectors. They are grouped under three headings; privatization and divestiture, import regime, and agricultural progress indicators.

Privatization and Divestiture - Liberalization in issuance of special permits for establishment of business enterprises and restructuring or liquidation of a number of parastatals or public-owned enterprises.

Import Regime - Easing of import restrictions on semi-manufactured and capital goods, reduction of import duties (with the tariff reduced to a maximum of 42 percent), and private retention and free use of foreign exchange.

Agricultural Progress Indicators - Elimination of fertilizer subsidies (by 1990) and privatization of 75 percent of distribution (by 1991), reduction in subsidies of irrigation water, and progressive transfer of ownership and management of public irrigation systems to private water user associations.

Recommendation: No consensus was formed during the PRC, as both approaches have merits and their constituencies. It is therefore necessary for the ANPAC to render a decision and

provide guidance. It should be noted that the Mission feels that inclusion of the privatization, import and agriculture measures into the PAAD will be counter-productive to relations with the Government of Tunisia, at a time when a new government is taking hold and when remarkable progress has been made under the SAP. This feeling, however, reflects their concern that the GOT perceives these benchmarks as conditions rather than indicators and could damage USAID's collaborative relationship with the GOT.

2. Problem: The PAAD stated, in very general terms, the criteria for selection of local currency generation usage and proposed uses.

Discussion: The PRC felt that the criteria and methodology should be made more explicit. Also, priority should be given to uses which support policy reform measures highlighted in APIP, the Action Plan and the Agriculture Strategy Statement. The Mission referred to the criteria used in the FY 1987 CIP PAAD on page 44, as well as the lists of possible activities shown in both PAADs. The Mission has agreed, for the purpose of clarification, to the insertion of appropriate language from the FY 1987 CIP PAAD on to page 27 of the FY 1988 CIP PAAD. Also the Mission has agreed to a grouping of the possible uses, as done in the FY 1987 CIP PAAD, by categories and by priority. These insertions will be done by ANE/PD, with Mission approval.

Recommendation: It is recommended that the clarifications be made, as per agreement between the PRC and the Mission.

3. Problem: A reduced OYB for Tunisia will not permit a funding level of \$8 million for the CIP. How does this affect the proposal?

Discussion: The OYB of \$10 million will probably mean the CIP could be funded at a level of \$3-4 million only. The Mission feels this level will still permit a reasonable procurement of corn (22,000 to 29,000 metric tons) and would constitute one or two shiploads of goods. The Mission would like approval at the higher level, in the event that additional resources become available at a later date.

Recommendation: It is recommended that the ANPAC approve the PAAD, at a level of \$8 million, and that the Mission Director be delegated authorization to sign Program Agreements when funds become available.

III. Adjustments

1. Statutory Checklists - The updated checklists for FY 1988 will be substituted for the older, expired checklists shown in the FY 1988 CIP PAAD. Changes will be made by ANE/PD, with approval of the Mission and GC/ANE.

2. Zorinsky Amendment - GC/ANE informed the PRC and the Mission that the Zorinsky amendment expired in FY 1987 and is no longer applicable to the FY 1988 CIP. Therefore, Section VIID of the PAAD will be eliminated.

IV. Authorities

The proposed CIP has been submitted as part of Tunisia's Congressional Presentation and does not require an additional Congressional Notification.

Department of State

INCOMING TELEGRAM

PAGE 01 OF 02 TUNIS 0011 00 OF 03 060918Z 6149 091274 A103571
ACTION AID-00

TUNIS 0011 00 OF 03 060918Z 6149 091274 A1

INFO RED-01 LH-00 /001 A6 LM06

ACTION OFFICE SECS-02

INFO SEOP-01 FPA-02 ANDP-02 JCAN-02 SERP-01 FVA-01 AMAD-01
SETH-01 PPCE-01 GC-01 SEOS-02 PPMF-01 PPR-01 FFP-09
ES-01 ANHE-03 RELO-01 TELE-01 PRE-06 /041 AD

INFO LOG-00 COPY-01 CIAE-00 EB-00 DODE-00 NEA-04 TRSE-00
/005 W

-----134523 060920Z /25 11 38

O 060553Z JAN 88
FM ANEMBASSY TUNIS
TO SECSTATE WASHDC IMMEDIATE 3833

UNCLAS TUNIS 00111

AIDAC

E.O. 12356: N/A
SUBJECT: FY 1988 CIP

REF: (A) 87 STATE 101884, (B) CIP 664-K-602, (C) LOCAL CURRENCY PLAN, (D) 87 USAID/T ACTION PLAN, (E) CIP 664-K-C03, (F) STATE 000081

FOLLOWING ARE MISSION RESPONSES TO CONCERNS RAISED BY PRC ON SUBJECT PROJECT.

1. (A) LINKAGE TO SPECIFIC REFORMS. BOTH THIS YEAR AND LAST YEAR'S PAADs MADE CLEAR THAT THE TUNISIA MISSION SEES ITS REAL IMPACT ON THE TUNISIAN ECONOMY AS COMING THROUGH THE LOCAL CURRENCY PART OF THE CIP RATHER THAN THE FOREIGN EXCHANGE IMPACT. EVEN THEN, WE SEE OUR CONTRIBUTION AS BEING CLOSELY CONNECTED WITH THE EASING OF CONSTRAINTS TO POLICY CHANGES IDENTIFIED BY APIP OR OTHER ANALYTICALLY ORIENTED ACTIVITIES RATHER THAN THROUGH THE ADOPTION OF ADDITIONAL REFORMS WHICH WOULD BE IMPLEMENTED IN RETURN FOR CIP ASSETS. ON THE DOLLAR, OR MACRO-ECONOMIC SIDE, WE DO NOT BELIEVE THAT THERE IS ANY ADDITIONAL CONTRIBUTION WE CAN MAKE WITH OUR FUNDS WHICH WOULD IMPROVE ON THE PRESENTLY ENVISIONED DIRECTION AND PACE OF REFORM. EVEN IF WE HAD DOLS 50 MILLION PER YEAR, IT WOULD BE FALLACIOUS TO ASSUME THAT THE GOT WOULD OR SHOULD MOVE EITHER FASTER OR IN A DIFFERENT DIRECTION. THIS MISSION IS CONVINCED THAT THE GOT IS ON THE RIGHT TRACK AND THAT THEIR ABILITY TO CONTINUE ON THAT TRACK IS STRONGLY RELATED TO THE BREATHING SPACE AFFORDED IT BY OUR CIP AND THE VARIOUS STRUCTURAL ADJUSTMENT RELATED LOANS FROM THE IFIS AND OTHER MAJOR DONORS. IN LINE WITH THIS CONCEPT, THE MISSION HAS ADOPTED THE STABILIZATION GOALS OF THE ECONOMIC ADJUSTMENT PROGRAM AS ITS BENCHMARKS TO MEASURE THE SUCCESS OR FAILURE OF THE PROGRAM. THESE GOALS ARE ARTICULATED IN THE MARCH 1987 USAID/TUNISIA FY 1988 ACTION PLAN. THESE QUANTIFIABLE BENCHMARKS APPEAR IN SECTION II A1 OF THAT DOCUMENT, PERFORMANCE AND PLANS, MACRO-ECONOMIC POLICY STRATEGIC GOALS. HAVING HAD OUR ACTION PLAN AND GOALS ACCEPTED BY AID/W WE ARE THUS PROCEEDING TO MEASURE PROGRESS AGAINST THESE BENCHMARKS; SUCH PROGRESS OF COURSE BEING PARTIALLY ASSISTED BY THE USAID CONTRIBUTION. OUR REPORT ON MOVEMENT TOWARD GOAL ACHIEVEMENT IS REFLECTED IN THE TABLE APPEARING IN PART VB1 OF THE PAAD ON PAGE 12. THIS TABLE SHOWS THAT THE BENCHMARKS TO MEASURE ACHIEVEMENT OF POLICY REFORM UNDER THE ADJUSTMENT PROGRAM SPELLED OUT IN THE ACTION PLAN HAVE BEEN MET OR EXCEEDED IN ALL BUT ONE AREA. THE QUANTIFIED BENCHMARKS FOR 1988 FOR THE SIX INDICATORS BEING USED ARE IN THE ACTION PLAN AND WE ASSUMED THAT

THE PROGRAM REVIEW COMMITTEE WOULD DRAW ON THESE AS THE BENCHMARKS AGAINST WHICH WE INTEND TO MEASURE THE PROGRESS OF THE ADJUSTMENT PROGRAM AND OUR ACTIVITIES HERE. IN ORDER TO MAKE THIS TASK EASIER WE SUGGEST THAT THE FOLLOWING BE INSERTED ON PAGE 12 OF THE PAAD BY REFERENCE. QUOTE. SPECIFIC TARGETS AND BENCHMARKS ON POLICY REFORM MEASURES FOR 1988 WILL BE AS FOLLOWS:

GROWTH REAL GDP	3-4 PERCENT
CURRENT ACCR DEFICIT (PERCENT OF GDP)	5.6 PERCENT
BUDGET DEFICIT (PERCENT OF GDP)	3.5 PERCENT
GROSS OFFICIAL RESERVES (MO. OF IMPORTS)	2.8 PERCENT <i>months</i>
EXTERNAL DEBT (INCL IMF) (PERCENT OF GDP)	63.8 PERCENT
EXTERNAL DEBT SERVICE (PERCENT CURRENT RECEIPTS)	27.9 PERCENT

IT SHOULD BE NOTED THAT THE ABOVE ARE TARGETS, SELECTED FROM GOT-DONOR DISCUSSIONS AND ARE NOT EXCLUSIVELY THE BENCHMARKS NOTED IN THE ACTION PLAN. FOR EXAMPLE, THE BUDGET DEFICIT AS A PERCENTAGE OF GDP IS NOT INCLUDED IN THE ACTION PLAN BUT IS IN THE PAAD; POPULATION GROWTH RATE REDUCTION AND GOT BUDGET EXPENDITURES AS A PERCENTAGE OF GDP ARE INCLUDED IN THE ACTION PLAN BUT NOT IN THE PAAD THESE BENCHMARKS ARE CONSIDERED MOST RELEVANT AND MEASURABLE OVER THE SHORT TERM EN QUOTE. IF THE PRC BELIEVES THAT OTHER TARGETS OR BENCHMARKS IDENTIFIED BY THE ACTION PLAN IN SECTION II A1 WOULD BE MORE RELEVANT WE WILL CONSIDER SUBSTITUTION.

NOWHERE IN THE NON-PROJECT ASSISTANCE HANDBOOK IS THERE A REQUIREMENT FOR CONDITIONALITY EITHER ON THE DOLLAR OR LOCAL CURRENCY SIDE OF CIP TRANSACTIONS. IN ANY EVENT

~~CURRENCY PLAN, (D) 87 USAID/T ACTION PLAN, (E) CIP~~
SUCH CONDITIONALITY IS USED WHEN WORKING WITH A NATION IN WHICH THE WILL DOES NOT EXIST TO MAKE NEEDED POLICY CHANGES. THIS IS NOT THE CASE IN TUNISIA, AS DEMONSTRATED BY THE PERFORMANCE AGAINST TARGETS AND BENCHMARKS NOTED ABOVE AND REFLECTED IN THE ECONOMIC ANALYSIS OF THE PAAD.

2. WITH REGARD TO IDENTIFICATION OF POLICY REFORM MEASURES GENERATED BY APIP ANALYSIS, THE APIP RESIDENT CONSULTANT ARRIVES ON JANUARY 6, 1988 TO START WORK. OF THE THREE PRE-APIP STUDIES UNDERTAKEN TO DATE: THE AG EXPORT STUDY HAS COMPLETED THE BACKGROUND PHASE ONE AND AWAITS THE STRATEGY-ORIENTED PHASE TWO; THE AGRO INDUSTRIAL STUDY ON SELECTED CROPS IS UNDERWAY AND SHOULD BE COMPLETED IN FEBRUARY OR MARCH; AND THE DOMESTIC PRICING STUDY (A) RESULTED IN APPROPRIATE SEPTEMBER CEREAL PRICE ADJUSTMENTS FOR THIS AGRICULTURAL YEAR, AND (B) SUBSEQUENT TO THE FINAL NOVEMBER REVIEW DIRECTED THE CREATION OF WORKING GROUPS TO GATHER FURTHER LONGITUDINAL DATA AND CONDUCT ANALYSES. THUS, THERE ARE CURRENTLY NO OUTSTANDING ACTIONABLE POLICY REFORMS WHICH HAVE RESULTED FROM PRE-PROJECT APIP ACTIVITY. IF ALL GOES RECORDING TO PLAN, WE SHOULD HAVE RECOMMENDATIONS ON SOME OF THE AREAS NOTED ON PP 27-28 OF THE PAAD BY THE SUMMER OF 1988. IT IS ALSO NOTABLE THAT, BECAUSE OF THE FACT THAT THE APIP CONTRACT WAS COMPETITIVELY BID DELAYS IN START UP OCCURRED. SHORT OF DELAYING THE CIP UNTIL THE SUMMER, WHICH RUNS COUNTER TO OUR STRATEGY OF PROVIDING FAST DISBURSING ASSETS ON A TIMELY BASIS, WE SEE NO WAY THAT WE CAN TIE TARGETS AND BENCHMARKS TO SPECIFICALLY ARTICULATED APIP OUTPUTS TO DATE AT INSTANT AS THEY DON'T EXIST. OUR RESPONSE TO

UNCLASSIFIED
Department of State

INCOMING
TELEGRAM

PAGE 02 OF 02 THIS 00111 00 OF 03 060918Z 6149 091274 AID3571
INSTRUCTION REF (A) IS, TO COMPLY BY TYING THE CIP TO
CONSTRAINT EASING ON EXPECTED APJP OUTPUTS, AS REFLECTED
ON PP 27-28 OF THE PAAD. FURTHER, THE MISSION POSITION
IS THAT POLICY REFORM MEASURES WHICH CONTRIBUTE TO THE
REALIZATION OF THE SIX BENCHMARKS ARTICULATED ON PAGE 12
OF THE PAAD, THE PROGRESS ON WHICH ARE REFLECTED IN
TABLE II OF THE PAAD ARE THE MEASURES TO BE ASSOCIATED
WITH THE CIP. TO THE EXTENT THE PRC AND THE ANPAC
BELIEVES CONDITIONALITY IS NECESSARY IN THE TUNISIAN
CASE, THE CONTINUED COMPLIANCE WITH THESE TARGETS AND
BENCHMARKS CONSTITUTE OUR VIEW OF APPROPRIATE CONDITIONS.

AS NOTED IN LAST YEAR'S CIP REVIEW, PUNITIVE ACTION
RESULTING FROM FAILURE TO MEET THESE TARGETS FOR CHANGE
IS NOT CONSIDERED APPROPRIATE. INDEED, WE WOULD
APPRECIATE SOME POSITIVE EFFECT ON OUR FY 1988 LEVELS AS
A RESULT OF THE OUTSTANDING COMPLIANCE WITH ALL
BENCHMARKS SET BY THE TUNISIANS IN THEIR MTSAP, IN
1987. WHAT OTHER NATIONS UNDERTAKING ECONOMIC
ADJUSTMENT PROGRAMS HAVE ACHIEVED ALL THAT THEY HAVE
PROMISED?

3. USE OF LOCAL CURRENCY - TO DATE THERE HAVE BEEN NO
LOCAL CURRENCY GENERATIONS FOR CURRENT PROGRAMMING SINCE
THE FIRST SHIPMENT OF SOY PELLETS PURCHASED UNDER LAST
YEAR'S CIP ARRIVED IN DECEMBER AND THE GOT HAS 6 MONTHS
TO DEPOSIT THE FUNDS IN THE SPECIAL ACCOUNT. AS
EXPLAINED ABOVE, THERE IS NO ACTIONABLE OUTPUT AT THE
MOMENT FROM APJP AS THE RESIDENT ADVISOR ARRIVES ON
JANUARY 6 AND THE PRE APJP STUDIES WHICH MIGHT PRODUCE
ACTIONABLE POLICY REFORM ARE EITHER NOT YET FINISHED OR
ACTIONS REQUIRED DO NOT NEED FUNDS. THE CRITERIA FOR
SELECTION OF LOCAL CURRENCY INVESTMENTS ARE CONTAINED ON
PAGE 44 OF THE 1987 CIP PAAD AND INCORPORATED IN THE FY
1988 PAAD BY REFERENCE ON PAGE 27, PARAGRAPH 3. IF THE
PRC OR ANPAC BELIEVES IT WOULD SERVE TO CLARIFY THE
DOCUMENT, WE WOULD APPRECIATE ANE/PD INCLUDING THE
PARAGRAPH FROM PAGE 44 OF THE 1987 CIP WHICH ARTICULATES
OUR CRITERIA. FURTHER REFINEMENT OF THESE CRITERIA ARE
MADE ON PAGE 28 OF THE 1988 PAAD. THE PRC'S ATTENTION
IS FURTHER DIRECTED TO THE MISSION'S LOCAL CURRENCY USE
PLAN SUBMITTED IN SEPTEMBER 1987 AT AID/W REQUEST
FOLLOWING OUR 1987 PROGRAM WEEK. THE ENTIRE SECTION IV
OF THIS DOCUMENT PROVIDES THE CRITERIA TO BE USED BY THE
MISSION AND GOT FOR PROGRAMMING LOCAL CURRENCY USE
WHICH, WHEN COMBINED WITH THE FY 1987 AND 1988 PAADS,
GIVE US CLEAR GUIDELINES OF WHAT WOULD BE CORRECT TO
DO. SECTION III OF THIS PLAN EXAMINES ALTERNATIVE USES
FOR LC GENERATIONS AND DECISIONS MADE HERE ARE SUPPORTED
BY INVESTMENTS MADE IN ACCORDANCE WITH THE CRITERIA
NOTED ABOVE. IT IS USEFUL TO NOTE HERE THAT IN
ACCORDANCE WITH THE PLAN THE MISSION HAS COMMITTED
PL-480-1 RESOURCES TO THE EASING OF UNEMPLOYMENT THROUGH

~~CURRENCY PLAN, (B) 87-0641077 ACTION PLAN (K) 010~~
A WORKERS PROGRAM FUNDED WITH PL-480-1 PROCEEDS.
SUBJECT TO A POSITIVE EVALUATION IN MAY 1988, THE
MISSION INTENDS TO USE UP TO DOLS 15 MILLION IN FY 1988
PL-480-1 L/C PROCEEDS FOR THIS PROGRAM. ANY SHORTFALLS
IN PLANNED PL-480-1 LEVELS WILL FORCE THE MISSION TO
CONSIDER USING AT LEAST A PORTION OF A PORTION CIP
PROCEEDS FOR THIS EFFORT.

WITH REGARD TO THE USE OF LOCAL CURRENCY WE WOULD LIKE
TO BE MORE EXPLICIT BUT BELIEVE SPECIFICITY PREMATURE DUE
TO (A) THE LACK OF ACTIONABLE APJP OUTPUT, (B) THE
PRESENT STAGE OF THE PRIVATE SECTOR STRATEGY AND (C) THE
UNCERTAINTY OF PL-480-1 LEVELS FOR FY 1988. WE SEE NO
REASON TO ENGAGE IN SUCH SPECULATIONS AT THIS POINT AND

TUNIS 00111 00 OF 03 060918Z 6149 091274 AI
THEREFORE RECOMMEND THAT ANPAC ACCEPT THE MISSION
POSITION AS ARTICULATED IN THE PAAD AND SUPPORTED BY THE
LOCAL CURRENCY PLAN.

4. SUMMARY: THIS CABLE CLARIFIES THE QUANTIFIABLE
TARGETS AND BENCHMARKS, THE MEASUREMENT OF WHICH REFLECT
PROGRESS TOWARD ACHIEVEMENT OF TUNISIAN ECONOMIC
ADJUSTMENT OBJECTIVES. IT ALSO CLARIFIES THE CRITERIA
USED IN DECISION-MAKING ON LOCAL CURRENCY. WE CONTINUE
TO HOLD THAT OUR RELATION WITH THE ECONOMIC ADJUSTMENT
PROGRAM IS SOUND AND OUR TECHNIQUES OF PROGRAMMING LOCAL
CURRENCY PROCEEDS FULLY COMPLY WITH THE AGENCY'S
FIDUCIARY AND DEVELOPMENTAL RESPONSIBILITIES.
CONSEQUENTLY HAVING RESPONDED FULLY TO THE TWO ISSUES
RAISED BY THE PRC IN REF (F). WE SUGGEST THAT THE PRC
RECOMMEND THE APPROVAL OF THE 1988 TUNISIA CIP WITHOUT
AN ANPAC, AS ALL ISSUES HAVE BEEN SATISFACTORILY
ADDRESSED. PELLETREAU

UNCLASSIFIED

6

UNCLASSIFIED
Department of State

OUTGOING
TELEGRAM

PAGE 01 STATE 000081
ORIGIN AID-00

2849 069355 AID1410

STATE 000081

2849 069355 A11

ORIGIN OFFICE ANPD-35
INFO ANOP-03 AMAD-31 ANTR-36 AMME-03 RELO-01 /019 AD

INFO LCG-03 EB-00 NEA-04 TFSE-00 /004 R

DRAFTED BY: AID/ANE/PD/MENA:TAHARRIS:FF:525ED
APPROVED BY: AID/ANE/PJ:RFVENEZIA
AID/ANE/DP:NNICHLSC01 AID/ANE/TR:LHARMS
AID/ANE/MENA:IPETERS

-----347253 010221Z /33

O 010100Z JAN 88
FM SECSTATE WASHDC
TO AMEMBASSY TUNIS IMMEDIATE

UNCLAS STATE 000081

AIDAC

E.O. 12356: N/A
TAGS: N/A
SUBJECT: TUNISIA FY 1988 CIP PAAD. PROGRAM REVIEW
COMMITTEE CONCERNS

REF: STATE 181884

1. TWO IMPORTANT ISSUES WERE IDENTIFIED IN REVIEW OF SUBJECT DOCUMENT. MISSION SHOULD ADDRESS THEM PRIOR TO ANPAC REVIEW AND MAY WANT TO MAKE CERTAIN ADDITIONS OR ALTERATIONS TO PAAD. ANPAC REVIEW IS CURRENTLY SCHEDULED FOR JANUARY 14. THE TWO ISSUES ARE: THE IDENTIFICATION OF SPECIFIC POLICY REFORMS AGAINST WHICH TO MEASURE STRUCTURAL ADJUSTMENT PROGRESS AND PACE; AND THE PRIORITY AND CRITERIA FOR SELECTION OF LOCAL CURRENCY USES.

2. IN 1987 CIP GUIDANCE (STATED IN FEFTEL), IT WAS STATED THAT CJOTE FUTURE CIP'S SHOULD INCLUDE SPECIFIC TARGETS AND BENCHMARKS ON POLICY REFORM MEASURES IDENTIFIED THROUGH ANALYSES AND RECOMMENDATIONS GENERATED BY APIP (654-0343) AND OTHER ACTIVITIES UNQUOTE. FY 1988 CIP PAAD DOES NOT ANSWER THE REFTEL AS IT DOES NOT STATE SPECIFIC POLICY ADJUSTMENTS UNDER THE STRUCTURAL ADJUSTMENT PROGRAM (SAP) TO BE MEASURED FOR

PACE AND PROGRESS. WHILE IT IS NOT NECESSARY TO DEVELOP NEW CONDITIONALITY, PROGRAM REVIEW COMMITTEE FEELS IT IS IMPORTANT THAT PAAD IDENTIFY KEY MEASURES LINKED TO THE CIP AND TO BE MONITORED OR, ALTERNATIVELY, MISSION SHOULD MAKE THE CASE WHY CIP DOES NOT FOLLOW GUIDANCE IN FEFTEL AND WHAT BROAD JUSTIFICATIONS THERE ARE FOR PROGRAM SUPPORT THROUGH A CIP.

3. THE PROPOSED USES OF LOCAL CURRENCY GENERATED THROUGH THE CIP ARE STATED IN VERY GENERAL TERMS IN THE PAAD. IT IS RECOMMENDED THAT THE CRITERIA AND METHODOLOGY FOR SELECTION OF LOCAL CURRENCY USAGE ACTIVITIES BE MORE EXPLICIT. PRIORITY SHOULD BE GIVEN TO ACTIVITIES SUPPORTING AID/TUNISIA PROGRAM OBJECTIVES, PARTICULARLY THOSE POLICY REFORM MEASURES IDENTIFIED THROUGH THE APIP (664-0343). MISSION SHOULD ADDRESS THIS ISSUE AND REVISE THE PAAD ACCORDINGLY.

4. DIRECT YOUR RESPONSE ON THESE ISSUES TO ANE/PJ/MENA AS SOON AS POSSIBLE.

5. BY THE WAY, HAPPY NEW YEAR TO ALL THE FOLKS IN THE MISSION FROM AME. WHITEHEAD

UNCLASSIFIED