

USAID/TUNISIA

FY 1988 ACTION PLAN

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Agency for International Development

BEST AVAILABLE

USAID/Tunisia
Action Plan: FY-88/89

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Attachments:

- Attachment A: New Project Descriptions
 1. Improved Water Resources Management
 (664-0345)
- Attachment B: Work Force Tables
- Attachment C: FY 1987/88 Evaluation Plan Schedule
- Attachment D: Private Sector Strategy Development Plan

I. INTRODUCTORY OVERVIEW

This year's Action Plan essentially stems from the recently reviewed Strategy for Tunisia, of which the Mission's Agricultural Sector Strategy is a part. Since ours is a new strategy, it does not lend itself to very much performance or impact-to-date reporting in this year's Action Plan. The main function of our Action Plan 1988/89, therefore, is to set forth the specific sectoral goals and objectives and to identify benchmarks and progress indicators with respect to the newly adopted development strategy for Tunisia so that meaningful progress achievement can be measured and recorded in next year's Action Plan submission. Objectives and progress indicators for the private sector will be subject to modification and further elaboration after completion of the Private Sector Strategy Paper. USAID has initiated work on the private sector development strategy. Past studies, the project evaluation, and our ongoing policy dialogue with the GOT strongly suggest a possible three-pronged focus on trade liberalization promotion, development of financial intermediation to spur investment, and privatization. Preparation of the strategy document is planned for first quarter of FY 88 with some short term assistance likely to be requested from a suitable IQC firm. Final strategy will be ready for Program Week during the Spring of 1988.

Our strategy over the period of this Action Plan is a short-term, transitional one relevant to Tunisia's current macroeconomic situation. The main goal of this strategy is to facilitate economic stability and structural reform. Given the amount of resources expected to be available to us, our program and policy dialogue agenda will be supportive of key reforms identified by the IMF/World Bank and GOT. (See Part IV. A. of Action Plan.)

USAID's Strategy encompasses actions in three priority sectors: Agriculture, the Private Sector, and Population. At the same time and overlying USAID's activities in these sectors is the Mission's near term involvement in macroeconomic decision making through its policy dialogue agenda and related programs of support for the GOT's program for economic adjustment. During the Action Plan period the Mission will also devote resources, both new commitments and pipeline, as well as deob/reob funds, to human resources and institutional development, with particular emphasis in fields related to the Mission's program focus. As requested in 86 State 394751, included in Part IV, below, is an explanation of Mission plans for more tightly focussing the Technology Transfer Project (664-0315). Pipeline and deob/reob funds will be used to bring to an orderly conclusion institution building elements of the portfolio, the Central Tunisia Development Authority (CTDA) the Regional Institute for Computer Science and Telecommunications (IRSIT). The Agricultural Research and Rural Health Projects will be phased

out during the Action Plan period. The Family Planning Project (664-0331) which aims to improve contraceptive prevalence in Tunisia by nine percent by 1989 and to promote the private sector as a service provider in Family Planning will accelerate a drawdown of pipeline over the span of the Action Plan. Even though much implementation still remains under the Family Planning Project, recent events have greatly increased the possibilities for successful achievement of the project's objectives by PACD. In early 1987 the GOT began a strong campaign for family planning, including numerous public statements by President Bourguiba himself. The USAID intends to introduce child survival activities, such as ORT, as an integral component of the Family Planning project, beginning FY-87. This will be accomplished largely with funds already obligated to the Family Planning project, as well as with some deob funds (See Action Plan Section III A).

In support of the Mission's macroeconomic objectives, the major one of which is assisting the GOT to avoid a balance of payments crisis, as much as possible of the program's resources over the period of the Action Plan will be for quick disbursing activities. Funds for CIP and the Technology Transfer Project (664-0315), which comprise the major portion of the OYB in FY-87 and FY-88, will be disbursed within one year of their obligation. RHUDO continues to explore additional opportunities for accelerating disbursements under the Housing Guaranty Program. (Further details are provided in Part IV. B. of the Action Plan.)

Food assistance assumes a significantly greater proportional role during the period of this Action Plan and food resources under various programs are an integral part of our total program. Title I concessional food assistance will help save scarce foreign exchange as well as reduce the revenue gap resulting from certain structural reforms such as reduction of tariffs. Specifically, local currency generations from Title I commodity sales will facilitate structural adjustment in the agricultural sector and the private sector by providing local currency to alleviate fiscal constraints to policy reform implementation. In addition to structural adjustment purposes, Title I proceeds will be used to promote private sector credit and lending through Section 108 and 106 programs.

In further support of the GOT's program for economic adjustment, the Mission plans to initiate in FY-87 a Section 416 "safety net" program to respond to the needs of those most severely affected. This program will be responsive to both short term relief type needs and longer term employment objectives.

Only two new project activities are presently planned over the span of the current Action Plan: Agricultural Policy Implementation Project (FY-87 initiation) and Improved Water Resources Management Project (FY-88 initiation). Both

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contribute directly and significantly to rationalization of the agricultural sector, a primary goal of the USAID's Strategy for Tunisia. The Agricultural Policy Implementation Project (APIP) is closely linked with the CIP, who's currency generations will provide local currency financing for important reform oriented activities identified under the APIP and related to the overall Economic Adjustment Program. The Improved Water Resources Management Project, through policy dialogue backed by technical assistance, will aim to make large-scale irrigated agriculture more cost efficient, with full cost recovery as its ultimate objective. It is noteworthy that this is both a major objective of the Agricultural Structural Adjustment effort and an area where the U.S. has a distinct comparative advantage over other donors.

With some probable yet-to-be determined redesignation of work responsibilities, particularly among local hire staff, and some changes in direct hire skills, USAID should be able to implement its new program strategy within current approved staff levels. Of particular concern to the Mission will be the need for continued reliable economic analysis services. This and other management/workforce issues are discussed in Part III.D. of the Action Plan.

II. PERFORMANCE AND PLANS

A. Macroeconomic Policy

Tunisia's current critical economic situation is dominated by three major problems: a) the high and persistent balance of payments deficit, b) the progressive decline in key traditional exports and the need to develop other sources of export revenue, and c) the high and growing unemployment rate.

1. Strategic Goals: The Government of Tunisia's short-and-medium-term structural adjustment program begun in the latter half of 1986 aims at a) a return to an export driven growth, b) a major improvement in the efficiency of resource use and allocation and c) economic development that is more labor intensive. Strategic goals for meeting these objectives are indicated below.

	(CALENDAR YEAR)				
GOAL	1987	1988	1989	1990	1991
Gross Official Reserves (months of imports)	1.5	2.0	2.2	2.1	1.9
% GDP External Current Account Deficit	7.4	5.6	4.8	4.0	3.1
Percent Real Growth in GDP	3-4	3-4	3-4	3-4	3-4
Population Growth Rate	reduced to 2.4% by 1991 from the present 2.6%				
Employment	Job creation rate rises to 50,000 annually by 1991 from the current annual average of 30,000				
GOT Budget Expendures % GDP	36.7 reduced to 26% of GDP by CY 1991				
External Debt % of GNP	63.4	64.3	63.8	61.5	58.3
External Debt Service (% current receipts)	27.2	26.5	27.9	30.6	28.5

CY 1986 saw a sharp deterioration of economic conditions in Tunisia. Exogeneous shocks included a disastrous cereals harvest, sharp decline in world market petroleum prices, and a shortfall in tourism earning caused by regional tensions.

During 1986 gross official reserves declined to less than two weeks of imports and the current account deficit widened to 9.0% of GNP in 1986 from 7.2% in 1985, while real GNP growth fell from 4.5% in 1985 to nil in 1986.

While exogeneous factors were responsible for the steep decline in Tunisia's economy during 1986, it is generally recognized that deeply rooted structural problems have been responsible for the steady deterioration in the GOT's budgetary and external accounts situation, which has been particularly pronounced since 1980. Tunisia embarked on a Structural Adjustment Program in 1986 and has received broad support from the international community, including the IBRD, IMF, and USAID, in pursuing policy reforms necessary for rendering the economy more competitive and for achieving sustainable real growth in GDP per capita. Most multilateral and bilateral donors are now targeting their financial resources to support the Economic Adjustment Program.

Progress Indicators: Improvement in the variables listed in the table above will indicate progress by the GOT in meeting its overall economic adjustment objectives and regaining economic health. Figures presented in the table above are largely those included in the IMF Standby Arrangement. It should be pointed out that, in some cases the GOT's own objectives under the newly-initiated Seventh Plan are even more ambitious; in the case of real growth in GDP, for example, the GOT's goal is 6% per annum compared to 3-4% for the IMF, and the GOT's objectives for population growth at the end of the Seventh Plan is 2.2% per annum. The USAID's view is that the goals postulated by the IMF are probably more realistic.

Achievements to Date: The Structural Adjustment Program was launched in August 1986, only seven months ago. Consequently, few reliable macro-level statistics are presently available for measuring progress. According to information currently available:

Gross Official Reserves remain low, at less than two weeks of imports.

GDP Growth appears to be positive due to improvements in both the energy and non energy export sectors (specifically textiles and worker remittances) and an upswing in tourism;

External Current Account Deficit is reported to be within bounds set by the IMF Stand-by, as is External Debt, as a percentage of GDP, and the Debt Service Ratio.

2. Intermediate Objectives

Intermediate objectives which are targetted for achievement so that the GOT might attain the strategic goals outlined above are as follows:

- (a) Reduction of governmental activities as a percent of GDP, and privatization
- (b) price policy liberalization in domestic markets
- (c) progressive reduction of both consumer and producer subsidies
- (d) adoption of policies that effectively encourage contraceptive prevalence
- (e) removal of investment controls;
- (f) maintenance of realistic exchange rate
- (g) reduced and consistent protection by lowering both tariff and non-tariff barriers.

The relatively limited resources of the USAID's Program preclude it from directly addressing all the above intermediate objectives. While all will enter in our policy discussions to some degree, USAID's resources over the Action Plan period will be primarily directed at intermediate objectives a) thru d). Depending on the outcome of our private sector strategy, as well as the availability of funds, USAID may direct greater efforts to assisting in removal of investment controls, intermediate objective(e).

Governmental Activities accounted for more than 40% of GDP in 1986. Pursuit of an export-and-private-sector-oriented growth strategy, as called for under the Structural Adjustment Program will require: (1) reduction of the GOT budget deficit to allow a greater percentage of national savings to flow to the private sector; (2) privatization of parastatal companies. Many of these are currently unprofitable and have pre-empted the private sector in various areas of the economy. In cases where these companies can be privatized (where profitability is impossible, closure is the only solution), the GOT budget can be reduced, and, at the same time, opportunities for

the private sector improved; (3) reduction of the GOT's current external account deficit. To the extent that the GOT budget deficit impacts on public and private consumption imports, the current account and budget deficit problems are related. Reduction of the current account deficit will result in less pressure to restrain imports of producer goods, which are essential in pursuing an export-oriented growth strategy (4) restraint on tax increases. While tax reform could improve private sector opportunities in Tunisia, general tax increases would serve to limit them, and operate against the Structural Adjustment Program.

Price Policy Liberalisation is considered crucial for attaining Structural Adjustment objectives since the current régime of widespread price regulation serves to: (a) limit development toward efficient retail/wholesale distribution networks; (b) prevent open competition and consequently retard improvements in productivity; and (c) when combined with investment controls and import controls, result in monopoly, particularly in the industrial sector.

Progressive Phase Out of Producer and Consumer Subsidies, aside from reducing pressure on the GOT budget, will result in improved resource allocation as both producers and consumers react to real prices for consumer and producer goods. In the case of consumer commodities, apparent wastage would also be reduced through subsidy reduction. Phase out of subsidies will: (a) reduce pressure on the GOT budget, (b) contribute to reducing the trade deficit through more economic use of presently subsidized imported commodities, (c) in the case of agriculture, elimination of subsidy on irrigated water and farm equipment would increase demand for labor and the job creation rate, as farming patterns shift toward more labor intensive crops.

Policies that Effectively Encourage Family Planning are urgently needed in Tunisia for reducing pressure on the GOT's limited budgetary resources (education and health expenditures), on the required job-creation rate for the economy, and to achieve significant improvements in living standards (per capita GNP).

3. Policy Dialogue Agenda: Over the course of the Action Plan period and using our Project/Program efforts as vehicles, USAID expects to undertake discussions with the GOT in the following areas related to the intermediate objectives which USAID has targetted for assistance with its resources. Detailed benchmarks and activities associated with each area of intervention are articulated in detail in the specific sectorial writeups which follow in the Action Plan.

(a) Privatization: The public sector in Tunisia accounts for more than 40% of GNP and 25% of employment. Overextension by the GOT, often, through the use of parastatal companies, has been identified in the Structural Adjustment Program as one of the primary causes of deficient recent economic performance. USAID expects to concentrate its efforts relative to privatization on the following:

1. assisting the GOT in reducing the number of parastatal enterprises from 550 to 140;
2. creating a more favorable climate for the development of capital markets;
3. Assist the GOT in their efforts to privatize state farms and parastatal cooperatives;
4. to the maximum extent feasible, assist the GOT in their efforts to privatize irrigated perimeters.

(b) Price-Policy Liberalization: The Tunisian economy is a high cost economy, characterized by price controls at various levels for an extremely wide range of products including, which results in bottleneck and shortages at both consumer and producer levels. These controls also seriously inhibit the GOT's ability to export its goods. USAID will encourage the GOT to progressively reduce the application of price controls throughout the economy. The major vehicle for these efforts will be the APIP and, potentially, the amended Private Sector Project. Utilization of CIP and PL-480 I resources to achieve this end will be encouraged.

(c) Elimination of Agricultural Input Subsidies: The most important inputs subsidized in Tunisia are: machinery, irrigation water, fertilizer, animal feeds, seeds, and agricultural chemicals. Administration of subsidies is generally accompanied by a rigid system of price controls at all levels.

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Those subsidies have: (a) biased production toward low-value crops in the case of irrigated agriculture; (b) biased production methods toward capital intensity, in general, and (c) in the case of animal feeds, have been regressive in terms of their impact on the poor. At the same time, price controls have discouraged private distributors of inputs, particularly for serving areas where distribution costs per unit are high. Under the Structural Adjustment Program, the GOT is committed to eliminating animal feed subsidies over a period of four years, and to increasing prices for irrigation water by 9% annually in real terms until full cost recovery is achieved. USAID will discuss input distribution issues with the GOT, with a view toward both accelerating policy reforms and creating an environment where GOT budgetary costs for agricultural inputs are reduced, and where a strong private distribution network can assure availability of products.

(d) Progressive Reduction of Consumer Subsidies: Expenses by the Caisse Général de Compensation, which subsidizes consumer staples in Tunisia, primarily cereal products, oils, milk, and sugar accounted for 3% of GNP in 1986. While an extremely sensitive issue politically, those subsidies are known to lead to wasteful habits by consumers, and to be an inefficient means of helping the truly needy. USAID will consult with the GOT on means of progressively reducing these subsidies, while maintaining adequate assistance to the poorest segments of the population. USAID will use its normal policy dialogue channel for discussing both the need for budgetary restraint and consumer product subsidy reduction with the GOT. In certain cases results from the APIP Project and the possible Private Sector Project will be useful in enriching and deepening the dialogue. Section 416 Program resources are also expected to facilitate the dialogue.

(e) Strong Family Planning Policies: Progress in the area of family planning has been negligible during the 1980s. Tunisia's low contraceptive prevalence rate (33% in 1986) and high population growth rate (at around 2.6% in the 1980s) jeopardizes appreciable improvement in living standards, even if economic conditions improve. While the GOT encourages family planning and the use of contraceptives, certain policies are distinctly pro-natalist in their

orientation. With respect to the latter, the GOT assumes many family costs that are borne privately in other parts of the world. These include nutrition (through consumer staple subsidies) education (through university level), and health. USAID will dialogue with the GOT on policies that will assure better incentives for distribution of contraceptives through the private sector and information related to their use, and on policies that result in an improved balance between the public and private costs of raising children.

4. Major Programmatic/Management Actions

In addition to providing short-term balance of payments relief (through CIP and Title I) to set the stage for the achievement of the GOT's major strategic economic goals the USAID's program will focus on agriculture, the private sector and family planning in assisting to attain the key intermediate objectives outlined above.

Major USAID programmatic/management actions in the agriculture sector directly support the GOT/IBRD Agricultural Sector Adjustment Program as it relates to policy price liberalization, progressive reduction of subsidies, and privatization of support services. Specific activities planned under USAID's program are as follows:

(a) Agricultural Policy Implementation Project APIP: USAID/Tunis has provided specialized assistance in a broad range of agriculture sector activities, for almost 30 years, and, as a result, is thoroughly familiar with the policy issues at hand, and can consequently offer the GOT invaluable assistance with implementation of its Agricultural Sector Adjustment Program (ASAP). The APIP Project, for which design has been completed, will work directly with GOT institutions most involved in Agricultural Structural Adjustment Program implementation. A total of thirteen policy-oriented studies are scheduled under this project, which is expected to significantly contribute to the analytical base of information required for policy reform. The project is designed to be implemented over the course of the ASAP period (through FY 1991).

(b) Use of Approximately One-Half of ESF Funds under a CIP Program: The CIP Program will directly assist the GOT with one of its most crucial problems during the Structural Adjustment period: its current account deficit. In addition, programming of local currency proceeds from the CIP will be oriented toward providing financial resources for those portions of the Structural Adjustment Program where financial resources are required for actual implementation and for which none are available. The need to maintain budgetary resource levels at a time when tariffs are being reduced is a problem faced by all countries doing structural adjustment. Programming CIP proceeds will help somewhat in alleviating this problem. Those may include privatizing parastatal farms, cooperatives, and firms, and finance of private sector input distribution.

(c) Design of Irrigation Project in late FY 1987/early FY 1988: Underperformance by Tunisia's irrigated sub sector was identified in the USAID/Tunis revised Agricultural Sector Strategy as one of the primary causes of lack of growth in agriculture. USAID plans the design during late FY 1987/early FY 1988 of an irrigation project that will assist the GOT in making its irrigated agricultural sector more productive through privatization actions, better management, and policy reform, especially as applied to water pricing.

USAID's programmatic/management actions for the private sector will also lend support to the GOT/IBRD Industrial Adjustment Program, to the extent possible and within the availability of resources, to help attain the intermediate objectives indicated above for the private sector. A major action currently planned is the USAID-sponsored Privatization Conference scheduled for April 1987.

USAID believes that the Structural Adjustment Program will create conditions appropriate for designing a Private Sector project by FY 1988. The APIP (see "a" above) Project is centered on the implementation of policies that will encourage private sector development; it will, however, work mainly with official GOT organisms. A Private Sector Project would relate directly to private sector participants, including firms, industry groups, and business associations. Priority under such a project would likely be given to the

following areas: financial markets, agricultural input fabrication and distribution, joint business ventures, and export-oriented industries. At the present time, given ESF funding levels, it is problematic whether USAID/Tunis will be able to undertake this initiative. However, this will be further explored during forthcoming development of the USAID's Private Sector Strategy.

USAID believes that the use of PL-480 Title I will provide valuable assistance through the Action Plan period in helping to meet intermediate objectives for the agricultural sector (through self-help measures and policy reform dialogue). Furthermore, Title I sales will help alleviate the GOT's current account deficit problem during the period, while local currency proceeds will be used in direct support of the structural adjustment process as relates to private sector promotion. With respect to the latter, USAID signed a Section 108 Agreement in January 1987, the first for AID worldwide. USAID plans to greatly increase the private sector finance-oriented Section 108 Program under future agreements. \$15 million is requested for Title I each year over the Action Plan period.

In pursuit of the strategic population goal and related intermediate objective, USAID will continue, at an accelerated pace, implementation of its Population Program. USAID committed \$7.5 million to the Family Planning/Population Development Project in FYs 85/86. The project is scheduled to reach successful end in FY 1989. USAID is placing maximum emphasis on private sector/public policy aspects of the project that are designed to increase contraceptive prevalence in Tunisia. Continued AID involvement in this area beyond FY 1989 will be determined after evaluation of the project in mid-FY 88.

Other USAID Programmatic/Management Actions planned in support of its strategy over the Action Plan period include:

(a) Housing Investment Guarantee Program: At the present time Tunisia has used \$53 million of \$75 millions in housing investment guarantee funds. This program contributes directly to alleviation of the country's current account deficit problem, and provides a valuable mode for policy dialogue with the GOT on public policy issues as they affect the shelter sector. (See Section IV.B. for further details.)

(b) Orderly Phase-out of Regional Development Activities: USAID/Tunis has supported regional development, through the Central Tunisia Development Authority (CTDA), since 1979. Despite a difficult beginning, CTDA is now functioning relatively well, and can be viewed as a mature organization capable of generating support from the GOT for its on-going activities. That, combined with the USAID/Tunis strategy of concentrating its resources in support of structural adjustment, has created an appropriate situation for an orderly phase-out of USAID support to CTDA.

(c) With respect to the Technology Transfer (scholarship) project, 664-0315, USAID will be undertaking further discussions with the GOT, as well as a manpower needs assessment, in order to refocus the project to be more responsive to the shorter term needs of Structural Adjustment Program.

See sector-specific writups below for more details on resource inputs, major implementation actions and performance indicators.

B. AGRICULTURAL SECTOR

The Mission's new Agricultural Program for the period 1987-91 is supported by the following activities:

- o Agricultural Policy Implementation Project
- o Improved Water Resources Management Project
- o Commodity Import Program
- o Multi-faceted PL 480 Food Aid Program

Under the Mission's overall Agricultural Strategy, ongoing projects will be brought to an orderly conclusion and major new project/program initiatives will support the implementation of select policy reforms within the GOT's Structural Adjustment Program. The reforms which will receive USG attention were selected by matching GOT desires with U.S. comparative advantage, and were prioritized with the following goals as criteria.

1. STRATEGIC GOAL

To support the GOT's Structural Adjustment Program with its GOALS of (1) increased efficiency of resources use and allocation, (2) expanded labor-intensive economic development, and (3) a return to export-driven growth, all within the context of greater reliance on free market economic competition as the driving force in the economy

a. Progress Indicators: (or Goal Achievement)

- o Increased GDP growth in the agriculture sector of 3-4 percent per annum;
- o Reduced GOT public expenditures for the agricultural sector by 30 percent by 1991;
- o Increased employment in the agriculture sector of 5-6 percent per annum;
- o Increased agricultural exports of 6 percent per annum.

b. Achievements: (Impacts to date, if any)

No significant achievements to date. The Mission's new agricultural initiatives are in the process of being designed with implementation due to commence later in the FY 87-88 period.

2. INTERMEDIATE OBJECTIVES

- o Progressive alignment of producer prices with world market levels to increase competitiveness and production of agricultural commodities;
- o Progressive reduction in production subsidies leading to more efficient resource use and cost-effective production;
- o Expanded role of private sector (and concurrent reduction of public role) in economy.

a. Progress Indicators (for achievement of objectives)

- o The institution of a self-sufficient economic analysis system within the GOT, providing required analysis and monitoring of the agricultural sector in support of policy reform;
- o Cereal producer prices reflective of world market levels;
- o Equalization of retail fertilizer markups charged by public sector with those of private dealers, and liberalization of retail private margins;
- o Elimination of input subsidies on fertilizer (by 1990), animal feeds (by 1988), and improved cereal seed (by 1991);
- o Reduction in subsidies of irrigation water by increasing water charges 9 percent per annum;
- o Public commercial services to irrigation sub-sector reaching full costing (no subsidization) by 1991;
- o Full recovery of O+M costs in 65 percent of irrigation sub-sector by 1991;
- o Progressive transfer of ownership and management responsibilities within public irrigation systems to private water user associations;
- o Privatization of 75 percent of the fertilizer distribution system by 1991.

b. Achievements (Impacts) to date (if any);

No achievements to date. The Mission's new agricultural initiatives are in the process of being designed with implementation to commence later in the FY 87-88 period.

3. Major Programmatic (Management) Actions (Planned for the remainder of FY-87, for FY-88 and FY-89)

- o Negotiate and sign APIP Project Agreement in FY 87;
- o Negotiate and sign CIP Agreement in FY 87;

- o Negotiate and sign PL 480 Title I Agreement in FY 87;
- o Design PID of Improved Water Resources Management Project (IWRM) in FY 87;
- o Design PP of IWRM Project in FY 88;
- o Negotiate and sign IWRM Project Agreement in FY 88.

4. Policy Agenca

- o Continued GOT support for implementing policy reforms under the ASAP and attainment of policy objectives in pricing, privatization and resource use.

STATUS: Dialogue initiated in above policy areas during the designs of the APIP Project and CIP Program.

5. Problems or Constraints to Success:

- o No guarantee that policy recommendations produced by APIP will be accepted by GOT policy decision-makers;
- o Restructuring of the agricultural sector under the Structural Adjustment Program could create some negative economic impacts in the short term, thereby diminishing GOT political will to aggressively seek policy reforms supported by the Mission's programs.

Note: Reality of above possible constraints will not become clearer until FY 88 when the Agricultural Adjustment Program and the Mission's new agricultural projects/programs are in full operation.

C. PRIVATE SECTOR

1. Strategic Goal: Increased production of goods and services and increased employment by a more dynamic Tunisian private sector.

a. Progress Indicators:

- Creation of institutional context for policy dialog on private sector export promotion, investment and privatization.
- Increased private sector contribution to GNP.
- Increased private domestic investment.
- Increased divestment of GOT public sector assets to the domestic private sector.

b. Achievements to Date:

- Dialog initiated with Center for Promotion of Exports (CEPEX), Federation of Private Exporters (FEDEX) and the Institut of Higher Management (ISG).
- Phase I of CRS Small Business Consulting subproject completed.
- Seminars on Modern Business Methods held at ISG.
- Leasing Seminars held at International Development Law Institute (IDLI).
- Seminars on private investment held.
- Preliminary commitment by GOT for Market Technology Access Project (MTAP).

2. Intermediate Objectives:

- Increase in FEDEX annual operating budget to TD 200,000 by FY 87.
- Signature of MTAP bilateral grant by FY 87.
- Deregulation of all private investments of TD 500,000 or less by FY 88.
- Macro-level privatization conference held in FY 87.
- Training program undertaken for staf of Tunisian Export Credit Insurance Agency (COTUNACE) in FY 87.
- Phase II of CRS small business consulting project reaches 100 firms by FY 87.
- Identify private sector uses for Section 108 funds.

3. Major Programmatic/Management Actions:

- Sign bilateral MTAP sub-grant in FY 87.
- Assuming funds availability, ammend PP for FY 88 obligation.
- Develop private sector strategy by FY 88.

4. Policy Agenda:

- Increased GOT institutional support capability.
- Increased development of capital market.
- Consensus on conceptual framework for national privatization strategy.

STATUS: Dialogue initiated on privatization and institutional support for trade liberalization.

5. Problems or Constraints to Success:

- Underdeveloped intititutional structure for private sector support.
- Underdeveloped capital markets.
- Privatization is new concept in predominantly socialist economy.

NOTE: Above constraints should be resolved or ameliorated by FY 89.

D. POPULATION

1. Strategic Goals

- Reduced population pressures leading to reduced economic pressures

a. Progress Indicators

- Increase contraceptive prevalence (modern methods) to 42.7% of MWRA by 6/89 (PACD)
- Reduce infant mortality rate to below 60 per 1000 by 6/89
- inclusion of population projections as basis for long range planning (e.g., as basis for VIIth Development Plan to be released in 6/87)
- increased distribution and incentive pricing for contraceptives in the private sector
- extended public awareness and knowledge regarding contraceptive methods
- reduced hospitalizations for diarrheal disease/dehydration by 6/89
- availability of oral rehydration salts in at least 90% of all pharmacies by 6/88

b. Achievements to Date

- method-specific mass media messages promoting family planning were introduced in 1987.
- strong political campaign for family planning program was begun in early 1987, including statements by president, party, ministers
- managerial changes have occurred in ONFP leading to a more rational programming of resources
- increased role of MOPH in family planning service delivery
- heightened integration of family planning and child survival activities in the field

2. Intermediate Objectives

- Pricing increase for contraceptives in pharmacies by 12/87

- study of supply, demand and distribution of contraceptives by 6/87
- increased number of method specific mass-media messages addressing contraception by 12/87
- child survival mass media messages to promote family planning by 8/87
- increased integration of health/family planning services by 12/78
- increase in sales of contraceptives in the private sector (annual sales of 1.08 million pill cycles and 1.36 million condoms by project PACD 6/89)

3. Major programmatic/management Actions

- Amend PP and Project Authorization to include ORT as support for encouragement of family planning - in FY-87. (Includes reob of funds from program deobs.)
- contract with PVO to implement ORT activities which will complement family planning activity.

4. Policy Agenda

- Increase of prices of pills and condoms in private sector (by 12/87)
- Liberalization of medical protocol regarding contraceptive prescription
- Increased use of pills, condoms and secondary methods in contraception
- Better quality services and patient education regarding contraception

NOTE: Prospects for achieving all are good.

5. Problems or Constraints to Success

- Medical profession is powerful and extremely conservative; methods which require action on the part of the patient for contraception are viewed with skepticism.
- The Economic Adjustment Program makes increase in prices politically difficult, though basis of EAP includes removal of subsidies.

E. OTHERHousing Investment Guarantee Program1. Goal

Increase supply of non-subsidized serviced shelter sites and units affordable to below median income beneficiarries.

a) Progress Indicators

1. Over period FY 86-FY 89, AFH to produce 6570 serviced housing sites broken down as follows: FY 86/60 FY 87/14,900; FY 88/1,610.
2. Over same period, CNEL to extend 6570 mortgage loans for land purchase and housing construction to below median income households broken down as follows: FY 86/0; FY 87/1,400; FY 88/3,500; FY 89/1,670.
3. By FY 88, CNEL starts making first land development loans to both public and private developers.
4. By FY 89, CNEL starts making first loans to low-income beneficiarries for purchase of serviced housing sites.
5. Over period FY 85 - FY 89 rate of average sewerage connections in 15 low-income neighborhoods under ONAS HG-004B subproject to increase from 20% to 58%.

b) Achievements to Date

1. As of FY 86, AFH has procuded 60 serviced housing sites.
2. 1st tranche of Mortgage loans (1400) expected in FY 87.
3. N/A (new program)
4. N/A (new program).
5. N/A

2. Intermediate Objectives

1. Encourage CNEL to provide loans for land development and for purchase or serviced housing sites.
2. Increase private sector participation in serviced shelter delivery system.
3. Improve financial viability of ONAS.
4. Demonstrate technical feasibility of recovering costs from low-income housing projects.
5. Reduce GOT Mortgage interest rate subsidies.

a. Progress Indicators

1. By FY 89 CNEI starts making 1st land development loans to developers and 1st loans to low-income households for purchase of serviced housing sites.
2. By FY 89, private developers begin development of 1000 serviced housing sites under HG-004B program.
3. i) ONAS tariff rates to increase by at least 7.5% on average thru 1989 (or at a rate which allows it to meet its financial obligations)
- ii) By 1989 maintain internal funding of at least 13% of annual average capital expenditures for 1989 and next fiscal year.
- iii) By 1989 maintain internal cash generation position that is 1.3 times the debt service requirements on all debts including any new debts to be incurred.
4. Establish at least 16,500 beneficiary cost recovery accounts under HG-003B, 004A and 004B programs by FY 89.
5. By end of FY 89, mortgage interest rates are at positive levels (i.e. in line with estimated rate of inflation).

b. Achievements to Date

1. N/A (new objective)
2. N/A (new objective)
3. i) Over period Fy 85-FY 87 ONAS has achieved 7.5% average annual tariff rate increase target
- ii+iii) Thru FY 87, internal funding/cash generation ratio targets maintained.
4. Thru FY 86, 3000 cost recovery accounts established.
5. In FY 86, Mortgage interest rates rose from 4.25% to 8.25%.

3. Major Programmatic/Management Actions

FY 87

1. Complete HG-004A Program.
2. Finalize Shelter Strategy Assessment Update.
3. Complete Design of \$15 Million CNEI Savings for land Supplement to HG-004B Program.
4. Complete Management and Financial Assessments of AFH, CNEI and SNIT.
5. Initiate Urban Land Study.
6. Hold AFH Management Seminar.
7. Redefine use of TA grant funds based on results of SSA and institutional assessments.
8. Start AFH computerization assistance.

FY 88

1. 2nd borrowing under HG-004B program.
2. Finish Urban Land Study.
3. Initiate TA to CNEL/private developers under \$15 million supplement.
4. Mid-term evaluation of HG-004B program.
5. Start post-assessment assistance to CNEL/AFH.

FY 89

1. 3rd borrowing under HG-004B program
2. Complete post-assessment assistance.

4. Policy Agenda

1. Promote greater private sector participation in the delivery of low cost shelter particularly with regard to land development.
2. Increase the financial and institutional viability of shelter and infrastructure service agencies.
3. Promote appropriate land development standards.
4. Increase and diversify the kinds of financial services and instruments available.

5. Problems of Constraints to Success

NONE

Human Resource Development

1. Strategic Goal: Development of a technically skilled human resource base in fields which contribute to achievement of structural adjustment objectives.

a. Progress Indicators:

-Sustained return to Tunisia of Technology Transfer Program graduates

-Increased focus of program training on structural adjustment issue areas such as management, economics, international trade, finance, statistics

-Rapid employment of program graduates in appropriate jobs upon return to Tunisia, primarily in private sector

b. Achievements to Date:

-Completion of program training by 105 students (44 Bs, 38 MS, 23 Ph.D.)

-Contract Academic Advisor hired for Scientific University Mission for Tunisia in Washington, D.C. (MUST) for student placement in appropriate degree fields, and universities

-Agreement to finance placement services TA for Ministry of Education, Training and Scientific Research (METSR)

-Agreement to finance new study of labor market demand for Technology Transfer student output.

2. Intermediate Objectives:

-Expeditious return of students having completed their degree programs by FY 1988

-Active placement of students, by MUST Academic Advisor, in fields with indicated job demand by FY 1988

-Elimination of new BS student starts by FY 1988

-Placement services set up and operational in METSR for returned graduates by FY 1988

-Number of students studying in U.S. reduced to 400 students or less by FY 1989

-Increased employment in Tunisian private sector by returned graduates

3. Major Programmatic/Management Actions

- Amend PP and Project Authorization to include additional degree fields which support structural adjustment in FY 87
- Determine with GOT LOP and LOP amount based on review of various program size/content/structure options; amend PP and Authorization in FY 88
- Contract for Placement Services TA and for Demand Study in FY 87.
- Improvement in program information/data flow between MUST, METSR and USAID through computer software upgrade of MUST by FY 87.

4. Policy Agenda

- Decrease emphasis on undergraduate training and increase emphasis on graduate training
- Promote concept of coupling labor market demand with student degree program placement
- Promote concept of active, affirmative job placement support for returned graduates
- Promote concept of "bonding" to require return to Tunisia of program graduates
- Promote concept of quick and sure "degree equivalency" for non-technical degrees from accredited U.S. universities.

STATUS: USAID-GOT dialogue on all agenda items is well underway. Prospects for achievement of agenda favorable by end FY 1987, except for degree equivalency for which timing is end FY 1989.

5. Problems or Constraints to Success:

- Lack of adequate METSR and MUST staff to manage program and resolve issues in timely way with USAID
- Original political support for large program size and inclusion of large undergraduate training emphasis emanates from Presidential direction
- Program started by GOT which USAID "brought into;" GOT thus perceives USAID more as financier than as program designer/manager

-METSU and MUST entrenched belief that placement and demand determination activities lie outside their perceived organizational roles

-Degree equivalency progress is influenced heavily by French educational system standards which are viewed as more rigorous than those of U.S.

NOTE: USAID is engaged in policy and implementation dialogue to resolve or ameliorate above constraints and problem areas. Favorable resolution on all constraints is expected by FY 88 with substantial progress on degree equivalency expected by FY 89.

CTDA Institutional Development

1. Strategic Goals(s)

- a) Development of a capable multi-sectorial decentralized regional GOT development agency in the central-west Tunisia region.
- b) Establish a decentralized institutional approach to rural potable water operation and maintenance with user associations assuming the burden of recurring costs.

a. Progress Indicators

- 1) Institutional capacity to identify, design, implement and evaluate development activities in several governorates of Central Tunisia.
- 2) A department established within CTDA by FY 88 to organize, develop and support water user associations.
- 3) 100 water user associations operating by FY 90.

b. Achievements to Date

- 1) CTDA has been able to undertake a major coordinating role in planning and implementing health and agriculture projects.
- 2) CTDA assigned primary responsibility for preparing the region's inputs for the VII Five-Year (1987-1991) Development Plan.
- 3) CTDA now has the ability to negotiate and manage host country contracts with U.S. and Tunisian institutions.

2. Intermediate Objective(s)

- a) CTDA staff trained in management/organization methods.
- b) New department staffed with four sociologists by FY 88.
- c) New site selection criteria established by FY 88.
- d) T.A. reinforcing the following services by FY 88: regional public health/sanitation; water system maintenance; and site design/construction monitoring.

a. Achievements

- 1) Over the last 5 years training objectives have been accomplished through training programs and technical assistance which have considerably upgraded the overall skills of CTDA's staff.
- 2) Improved procedures have been adopted for identifying, designing, implementing and evaluating projects, and updating inventory of resources.
- 3) Four initial water sites identified and drilling operations started.
- 4) Water resources study started.
- 5) Two institutional development consultancies completed.

3. Major Programmatic/Management Actions

a) Project deob of \$750,000 for reob to project 664-0328 to permit orderly termination of assistance to CTDA.

4. Policy Agenda

a) CTDA continues to ensure beneficiary participation in selection, design, implementation and management of development activities.

b) Cost recovery through beneficiary charges for potable water.

c) Sustained increase in beneficiary involvement in the design, operation and maintenance of potable water systems.

d) Institutional support to Water Associations' development and operation.

e) Promotion of water user association concept as cost effective institutional means for provision of water to dispersed, rural populations.

5. Problems or Constraints to Success

a) GOT bias to subsidize infrastructure, implement non cost-effective activities and encourage political patronage.

b) Although the GOT has generally accepted that the only realistic way to provide for recurrent cost coverage is through user participation, there is still a strong bias at all levels, to subsidize the provision of potable water to the rural door through cost-ineffective methods which do not use beneficiaries latent capabilities for cost recovery, for self organization and for community based institutional development.

c) CTDA exhibits a bias against hiring appropriately trained professional sociologists for management and analysis actions needed to ensure sustained development and spread of the water use association concept.

F. Summary of USAID's Policy Dialogue Agenda

POLICY DIALOGUE

DIALOGUE VEHICLE

I. Agricultural Input Subsidies

- a) Elimination of animal feed subsidies
 - Title I
 - APIP Studies
 - CIP Resources
- b) Increase prices for irrigation water until full cost recovery is achieved
 - Improved Water Resources Management Project (664-03450)
- c) Phase out of subsidies on other important agricultural inputs
 - APIP Studies and CIP resources
- d) Progressive increase in interest rate on agricultural lending, thereby reaching commercial market levels by 1991
 - APIP Studies

II. Price Policy Liberalization

- a) Phase out of price controls on agricultural production to align them with external market prices
 - APIP Studies
- b) Phase out of quantitative restrictions on imports
 - APIP Studies
- c) Liberalization of private retail margins to attract increased private sector participation in the fertilizer distribution system
 - APIP Studies
 - Title I

III. Progressive Reduction of Consumer Subsidies

- Consult with GOT on possible means for reducing certain food subsidies, while maintaining adequate assistance to the poorest segments of the population
 - APIP Studies
 - Section 416 Program

IV. Privatization and Private Sector Promotion

- | | |
|--|--|
| a) Promotion of the concept and role of privatization to develop a healthy economy | -Privatization Conference |
| b) Promotion of greater private sector participation in the delivery of low cost shelter | -HG Program |
| c) Increased participation of the private sector (pharmacies) in sales of contraceptives | -Family Planning Project (664-0331) |
| d) Increased role of private sector retailers in delivery of farm production inputs, such as fertilizers | -Section 108 Program
-PL-480 Title I
-APIP Studies
-CIP resources |
| e) Promote privatization of PPIs/
Progressive transfer of management responsibilities within public irrigation systems to private water user associations | -Improved Water Resources Management Project (664-0345) |

V. Adoption of Strong Family Planning Policies

- | | |
|---|-------------------------------------|
| a) Promotion of private sector for contraceptive delivery | -Family Planning Project (664-0331) |
| b) Liberalization of medical protocol regarding contraceptive prescription | |
| c) Improvement in quality of services and patient education regarding contraception | |
| d) Use of more targetted mass media to promote contraception | |

111. SPECIAL CONSIDERATIONS

A. Financial Issues

Pipeline

Current ESF grant project pipeline is an acceptable \$36 million, approximately 2 years of new obligating authority. We do not anticipate any pipeline problems over the period of the Action Plan. All ongoing projects are expected to be implementing at normal pace according to project plans. A major portion of the Action Plan period portfolio, comprised of the CIP and Technology Transfer (scholarship) project (664-0315) are very quick disbursing, i.e., within one year of their obligations.

Mortgage

Mortgage, per se, on the newly focussed USAID Program (i.e. beginning FY-87) does not constitute a problem, partly because a major portion of the program in FY-87, FY-88 and FY-89 is comprised of CIP. The anticipated mortgage for FY-88 is relatively small at approximately \$7 million. The Technology Transfer project (664-0315) constitutes a large amount of the mortgage in FY-88 and FY-89 with approximately \$5 million needed each year to continue scholarships of project participants studying in the U.S. (It comprised our program's only mortgage for FY-87.) The relatively small size of the OYB prevents us from fully-funding participants at the beginning of their study programs. Agricultural Policy Implementation project (664-0343) has a small mortgage in FY-88 after which time it is expected to be fully-funded. Improved Water Resources Management project (664-0345) is the only project (besides Technology Transfer) which adds to the FY-89 mortgage.

Deobligations

At the present time the only deobligations foreseen over the period of this Action Plan are for FY-87 and amount to approximately \$1,000,000. All this amount is planned for immediate high priority reobligation into other projects in the portfolio. (See Deob-Reob Plan Table).

FISCAL YEAR 1987DEOB/REOB PLAN

<u>PROJECT NO. & TITLE</u>	<u>AMOUNT</u> (+ or -)
A. <u>DEOB. ACTIONS</u> (-)	
1. 664-0326 Energy Planning	- \$100,000 a/
2. 664-0296 Rural Community Health	- \$150,000 a/
3. 664-0312 Central Tunisia Rural Development	- \$750,000
<u>TOTAL</u>	<u>-\$1,000,000</u>
B. <u>REOB ACTIONS</u> (+)	
1. 664-0331 Family Planning & Pop. Development	+ \$250,000 a/
2. 664-0328 Private Sector & Tech. Transfer	+ \$750,000
<u>TOTAL</u>	<u>+\$1,000,000</u>

a/ To finance ORT activities under the ongoing Family Planning Project 664-0331.

SUMMARY BUDGET TABLES
(\$000)

	<u>Actual Year FY-87</u>	<u>Operational Year FY-88</u>	<u>Budget Year FY-89</u>
<u>I. DEVELOPMENT ASSISTANT (DA)</u>			
664-0330 Small Project Assistance (PC)	40	40	40
<u>Subtotal</u>	<u>40</u>	<u>40</u>	<u>40</u>
<u>II. ECONOMIC SUPPORT FUNDS (ESF)</u>			
664-0315 Techn. Transfer (scholarships)	5,000	5,000	5,000
664-0343 Ag. Policy Implementation	3,400	1,440	-
664-K602 CIP - Commodity Import Program	7,358	-	-
664-0345 Improved Water Resources Mang.	-	4,000	5,500
664-K603 CIP - Commodity Import Program	-	8,160	-
664-K604 CIP - Commodity Import Program	-	-	7,000
664-0346 - Private Sector Development	-	1,000	2,500
<u>Subtotal</u>	<u>15,758</u>	<u>20,000</u>	<u>20,000</u>
<u>III. PL 480 TITLE I/III AND II</u>			
PL 480 Title I	15,000	15,000	15,000
PL 480 Title II	-	-	-
Section 416 ^{1/}	12,000	10,000	10,000
<u>Subtotal</u>	<u>27,000</u>	<u>25,000</u>	<u>25,000</u>
<u>IV. HOUSING GUARANTIES (HG)</u>			
	-	(25,000)	-
<u>TOTAL</u>	42,79	45,000	45,000
=====	=====	=====	=====

1/ Safety net program associated with structural reform planned from either Section 416 or Title II.

SCHEDULE OF PLANNED OBLIGATIONS
(ECONOMIC SUPPORT FUNDS)

<u>FY 1987</u>	<u>AMOUNT</u> \$000	O	N	D	J	F	M	A	M	J	J	A	S
<u>PROJECT TITLE/NO</u>													
1. Tech. Transfer/ Scholarships (0315)	5,000												X
2. Ag. Policy Implemen- tation (0343)	3,400						X						
3. Commodity Import Program (K602)	7,358						X						
<u>TOTAL</u>	<u>15,758</u>												
 <u>*FY 1988</u>													
1. Tech. Transfer/ Scholarships (0315)	5,000						X						
2. Ag. Policy Implementa- tion (0343)	1,840			X									
3. Commodity Import Program (K603)	8,160						X						
4. Improved Water Resources Management (0345)	4,000						X						
5. Private Sector Development (0346)	1,000												X
<u>TOTAL</u>	<u>20,000</u>												
 <u>*FY-1989</u>													
1. Techn. Transfer/ Scholarships (0315)	5,000						X						
2. Improved Water Resources Management (0345)	5,500							X					
3. Commodity Import Program (K604)	7,000								X				
4. Private Sector Development	2,500									X			
<u>TOTAL</u>	<u>20,000</u>												

*Mission intends to request \$20 million ESF Budget each year.

B. EVALUATION PLAN

Three major project evaluations planned for FY-86 were successfully completed as anticipated. The Central Tunisia Rural Development project (664-0312) evaluation has not been as useful as originally intended because of the shift in program emphasis in FY-87. The evaluations for the Private Sector Development project (664-0328) and the Technology Transfer project (664-0315) are useful in formulating plans for future USAID involvement in the private sector and under the scholarship program.

FY-87/88 evaluation plans call for 7 separate project evaluations, four of which are within the RHUDO portfolio. These latter four are being undertaken primarily to assess projects' effectiveness in achieving originally planned objectives. The evaluation of the Range Development subproject activity under the Central Tunisia Rural Development project (664-0312) umbrella will be evaluated to determine what, if any, changes in implementation plans may be appropriate. The evaluation of the Family Planning/Population Development project (664-0331) is an important one intended to assess progress to date in this area which recently has been assigned highest level GOT priority. The evaluation will identify implementation problems (actual and anticipated) and propose any corrective actions necessary. The Computer Technology project (664-0334) will have a mid-term evaluation in early FY-88 to determine whether the project's implementation has been satisfactory, and what, if any, adjustments may be required.

The evaluations of the PL 480 Title I program planned for each fiscal year are primarily intended to provide the Mission with an assessment of the program's established Self-Help measures, including local currency uses. These evaluations performed annually have been invaluable to the Mission in measuring Self-Help achievement and in defining/refining future priority Self-Help measures.

As unforeseen or special needs arise, evaluations of activities other than those identified above may be added to the FY-87/88 Evaluation Plan Schedule.

As a matter of policy, the Mission actively engages the GOT in all evaluations, especially those aimed at policy dialogue and/or possible project expansion/eventual follow-on activities. Key to the effectiveness of our evaluations will be the extent to which we are able to involve the GOT. Successful GOT participation could serve well to facilitate and reinforce subsequent policy dialogue aimed at further economic/policy reforms.

An evaluation schedule for the remainder of FY-87 and for FY-88 is annexed in Attachment C.

C. PL 480 PROGRAM NARRATIVE

I. RELATIONSHIP TO MISSION DEVELOPMENT STRATEGY

The Mission's overall development strategy is directed at supporting the GOT's Structural Adjustment Program and its goals of (1) increased efficiency of resource allocation and use and (2) expanded labor-intensive economic development, all within the context of greater reliance on free market economic competition as the driving force in the economy.

The PL 480 Title I Program is considered an integral part of the Mission's portfolio and a major source of local currency support for implementing this development strategy. Since 1981 the Program has been designed to support quantified, measurable self-help activities that are consistent with mutual US/GOT strategies on agricultural development. The periodic reviews of self-help activities and negotiations of annual agreements have provided an important forum for Mission policy dialogue and measurably contributed to implementation of policy reforms through time. These reforms in fertilizer distribution, private retail margins and input privatization - although modest - were achieved during a period of GOT reluctance to engage in major policy change. Now with the introduction of the Government's ambitious structural adjustment program the political climate for economic reform has become more accommodating.

It is within this context that the PL 480 forum for policy dialogue takes an added importance and with it enhanced potential for affecting meaningful policy change in the future. Furthermore, the evolution of the Title I Program into Section 106/108 activities considerably expands the scope of potential impact beyond the traditional focus of agriculture. Correlating well with the new GOT interest in free market economics, Section 106/108 support for increasing the role of private enterprise in the economy, will promote reform movements in agriculture as well as in the industrial sector.

II. COUNTRY FOOD SITUATION

After a decade of steady growth during the 1970s, the performance of the Tunisian economy has entered into a period of decline. Reduced growth has been particularly evident in the agricultural sector where, today, agriculture accounts for only 13 percent of GDP and 8 percent of export earnings. This has resulted in a widening "food

gap" which has placed an increasing burden on the country's balance of payments.

Domestic food production has failed to keep pace with increased demand generated by a combination of rapid population growth, a high rate of urbanization, and domestic consumer price subsidies. The ready availability of cheap food imports, subsidized both by Tunisia and the exporting countries, has diverted attention from the underlying sectoral problems. Food imports have increased by about 3.8 percent per annum over the period 1977 to 1986 and the rate of self-sufficiency for key food items has declined over the last decade - e.g. for cereals from 75 to 50 percent.

Weather vagaries, such as drought in 1983/83 and again in 1985/86 severely depressed production. Cereal production in 1985/86 of 600,000 MT was the lowest level in 15 years. Cereal imports over the past several years have been in the range of one million metric tons (MT) per year. If weather conditions are favorable for the rest of this year production should be between 1.1 and 1.3 million MT. Nevertheless, Tunisia will have to import an additional one million metric tons of grain to satisfy domestic demand.

Faced with these mounting problems in agriculture the GOT has implemented an ambitious structural adjustment program, which envisions major policy reforms to redress the situation. This program has given added importance to the sector as a vital element in Tunisia's overall economic growth, and the GOT is now taking major policy reform measures to substantially increase its level of food self-sufficiency in the future.

For the near term policy reforms will not have a measurable impact in increasing food production and Tunisia will still have to resort to large food importation. Because the government's ability to import at commercial rates is constrained by its serious balance of payments situation, food aid such as PL 480 will continue to play an important role in development planning for the next few years.

III. PRESENT FOOD POLICIES AND REFORMS TO BE SUPPORTED BY THE PL 480 PROGRAM

Under the Structural Adjustment Program the government has committed itself to a wide range of policy reforms over the next several years. Some of the key reforms include:

- o Elimination of input subsidies on fertilizer, animal feeds, herbicides and improved cereal seeds;
- o Progressive alignment of cereals producer prices to world market levels;

- o Equalization of retail fertilizer markups charged by the public sector with those of private dealers and liberalization of private retail margins;
- o Increased privatization of agricultural production services, including the important fertilizer distribution system;
- o Increased interest rates on agricultural lending up to commercial levels;
- o Increased role for the private sector (with concurrent reduction of parastatal control) in commercially-viable economic enterprises.

While the GOT is committed to these key policy reforms, their actual implementation in a heavily subsidized economy entails significant political and social risk in the short-medium term. In response to this risk, the PL 480 Program will provide food commodity and local currency support to the government to assist it in implementing these six important reforms. This is a substantial policy agenda and program support will be focussed on its achievement.

IV. USE OF PROPOSED COMMODITIES

Commodity imports under the Title I Program in Tunisia are not differentiated and are fully integrated into the normal commercial distribution and marketing systems upon arrival.

V. LOCAL CURRENCY USES

Part of the local currency proceeds will support the GOT's five-year program of applied research and farmer support services in the areas of soil analysis and fertilizer response, improved cereal/legume varieties and cropping systems, and integrated approaches to weed control. All of these activities are tailored toward increasing the efficiency of agricultural production over the next few years and are important in light of the GOT's reform efforts in eliminating production subsidies.

It is anticipated that an increasing portion of the Program will be directed toward Sections 106 and 108 private sector activities. The following areas have emerged as particularly relevant to agricultural sector reform and privatization, and promise strong economic paybacks in the short-term.

(1) Privatization of Agricultural Input Distribution

The objective of this support is to assist the transition from a public agency-dominated to a largely private sector agricultural input distribution system, with attainment of 100 percent privatization in the governorat of Nabeul and 50 percent of

Bizerte by 1989. Support will be directed toward expanding this coverage to several additional governorats with the objective of an average of 75 percent privatization of the distribution system by 1991.

(2) Lending To Private Agricultural Input Dealers

Local currency will be funnelled through commercial banks as loans to encourage private dealers to stock fertilizer supplies. In fact, the lack of even modest fertilizer inventories outside of the primary/secondary distribution centers is a primary reason for the bottlenecks and resulting delays in fulfilling farmer demand in advance of each agricultural season. Significant support for boosting inventories of private dealers will reduce this annual problem, and improve the efficiency of Tunisia's transportation network.

(3) Increased Privatization of the Seed Multiplication and Distribution System

The non-availability of high yielding seed varieties for many farmers is viewed as a major constraint to increasing agricultural production, especially for cereals and food legumes. Local currency funds will be directed toward activities stimulating increased private sector participation in both seed multiplication and distribution. Activities to be considered include feasibility studies of supplying domestic and international certified seed demand, and commercial loans to private entrepreneurs who wish to enter the market or expand their operations.

(4) Support to Private Cooperatives and Other Agro-Industries

Commercial credit support will be provided to the growing private cooperative sub-sector to further development of its processing and service activities. In addition, private agro-industries, identified as economically-viable enterprises will have access to to this credit window.

(5) Support for Direct Production Credit to Tunisian Farmers

Funds may be used in support of direct agricultural production credit loans to farmers if the GOT is willing to undertake significant reforms in this area, as per the stated credit policy objective above.

Under Section 108 local currency will be funnelled through private banks to provide commercial credit to the private sector. While discrete activities will not be defined until the actual time of lending, it is expected that this support will further the development of agro-industry and other private enterprises in the broader economy.

With respect to the Section 416 program, the implementation of reform activities in the economy will impose some heavy penalties and constraints on both food producers and consumers in the medium-term. Pricing deregulation, progressive removal of subsidies, unemployment resulting from streamlining or closing parastatals and inefficient private enterprises, and other reform measures will necessitate "belt-tightening", and could exact a disproportionately high price from the certain segments of the Tunisian population. This being the case, there will be strong political and humanitarian pressures on the GOT to provide specially-targeted assistance during this "crisis" period. To help reduce some of these pressures and provide encouragement to the government to continue on the path of structural adjustment and reform, the Mission's Section 416 "safety net" Program will provide subsidized food on a short- to medium-term basis to target populations directly disadvantaged by the structural adjustment program.

VI. STATUS OF STORAGE/DISTRIBUTION FACILITIES

In March 1987, Mission personnel inspected the six major port and warehousing facilities in Tunisia that handle bulk grain and food imports. Based on that inspection and other available data the Mission has determined that Tunisia's capacity to receive and store domestic/imported grain continues to be adequate. Furthermore, IBRD-supported rehabilitation/new construction of an additional 154,000 MT of countrywide grain storage capacity, along with new automatic bulk loading facilities in the major ports of Bizerte and Gabes is almost complete. Full operation of these new facilities is expected to commence the latter part of FY 87, thereby significantly enhancing overall loading/storage capacity.

VII. DISINCENTIVES TO LOCAL PRODUCTION

It is not expected that PL480 importation will cause disincentives to local production. These commodities represent only a fractional percentage of the overall domestic grain supply. Additionally, the Government has provided incentive prices for producers and there is no indication that the importation of PL480 grain will negatively affect this pricing policy.

D. MANAGEMENT/WORKFORCE ISSUES

USAID has made considerable progress in consolidating its program and will continue to progressively streamline the portfolio through phase out of old projects and a more focussed structuring of new activities. We will have reduced activities in the portfolio from 28 in FY-85 to 12 activities, including food assistance, for FY-87/88. However, despite this reduction (the level likely will prevail through FY-89), the new food aid activities expected to be initiated in FY-87, (i.e. CIP, Section 416, as well as anticipated continuation and expansion of Title I and the Section 108 Program) will be extremely management intensive. The Mission expects it will need all of its current USDH and FSN staffs to manage/monitor its portfolio as projected thru FY-89, although there may be some adjustments within over all totals as to specific types of expertise required. An Agricultural Economist will be needed in FY 1987 to support the new APIP and CIP Projects. Particular attention will be given to developing foreign national employee staff expertise to handle the details of local food assistance program monitoring which may entail yet-to-be-determined modifications in the composition of the local hire staff. A Commodity Management officer may be needed for up to three months a year depending on the nature of the commodities under the CIPs for FY-88 and FY-89.

Currently the Mission's macroeconomic policy dialogue agenda is being managed by the USDA project-funded economist. Whether this arrangement continues beyond the term of the incumbent's present PASA expiration date (September 30, 1987) depends on the availability of the incumbent, as well as availability of project funds to finance a PASA extension. If this arrangement is not available to the Mission, we will have to turn to other alternatives, including possibly a USDH macro-economist position, beginning FY-88.

With increased program emphasis on economic policy in the agricultural sector, most specifically the mission's relationship with the Agricultural Structural Adjustment Program, the USAID believes it is essential to fill the Agricultural Economist position, the SPAR for which was recently written, as soon as possible. Failing identification of a USDH, the use of a PCS or JCC will be examined. An experienced agricultural economist is needed to play a key role in agriculture policy dialogue at the macro level.

Presently the Mission's Health/Population sector is being very well managed by a U.S. PSC. We do not envisage any need to reconsider activating the recently "E'd" USDH Population Officer position. There are sufficient funds in the Family Planning Project (664-0331) to continue PSC management services through the end of our current planned involvement in the sector.

E. GRAY AMENDMENT ACCOMPLISHMENTS

The Mission has incorporated in its contractor selection procedures a thorough review of capability of Gray Amendment firms, with special attention to 8 (a) firms. All Mission documentation such as PIO/Ts, PIDs and PPs, include discussion of the use of firms qualifying under the Gray Amendment. Additionally, the Mission's Quarterly Project Implementation Reviews provide for review of projected contracting requirements which could be met by qualified minority firms.

In FY-86 Mission contracts with 8 (a) firms amounted to \$3,238,000. A listing of firms and breakdown for this amount are contained in Table I. Planned/Estimated Gray Amendment activities for FY-87 and FY-88 are contained in Table II. The levels for new Gray Amendment firm contracts for FY-87 and FY-88 are only projections at the present time. They will most likely be considerably lower than the very high FY-86 level. This is due largely to the fact that a large portion of the FY-87 and FY-88 ESF budgets will consist of CIP financing.

TABLE I

ACCOMPLISHMENTS UNDER GRAY AMENDMENT
FY-86 - ACTUAL

<u>Contractor - 8(a) firms</u>	<u>FY-86</u>	<u>Purpose</u>
Ronco Corporation	\$40,000	PL 480 Title I Program Review
Creative Associates Inc.	\$75,000	Technology Transfer Project Evaluation
Ronco Corporation	\$110,000	Central Tunisia Rural Development Project Evaluation
Ronco Corporation	\$3,013,000	Family Planning Project Implementation

<u>TOTAL</u>	<u>\$3,238,000</u>	

TABLE II

FY-87/88 PLANNED/ESTIMATED GRAY AMENDMENT ACTIVITIES

<u>Contractor -</u> <u>8(a) firms</u> (To Be Determined)	<u>FY-87</u>	<u>FY-88</u>	<u>Purpose</u>
	\$40,000	\$40,000	PL 480 Title I Program Review
Agreement	\$80,000		PL 480-Title I Sector Studies
	\$320,000		Rural Potable Water Institutions Project
	-----	-----	
<u>TOTAL</u>	<u>\$440,000</u>	<u>\$40,000</u>	

IV. SUPPLEMENTAL INFORMATION

(Requested in 86 State 394751)

A. IMF/IBRD/GOT Stabilization and Structural Adjustment Indicators

Performance Indicators of the IMF/IBRD/GOT Program of Structural Adjustment and Stabilization which are most relevant to the USAID's present Program strategy are as follows:

1. Accelerated growth rate for agricultural exports (at least 4 percent annually in real terms).
2. Price policy at the producer level linked to world market prices.
3. Elimination of subsidies on agricultural inputs by 1991.
4. Liberalization of price policy for agricultural inputs at the retail level.
5. Phase out of subsidies on water used for irrigation (annual increase of 9 percent in real terms until full cost recovery is attained).
6. Elimination of the bans on imported processed food items which are also produced locally in order to improve the competitiveness of local production.

The USAID's intermediate objectives and progress benchmarks related to support of the above key Structural Adjustment Program indicators are contained in the Action Plan, Part II. It should be noted that in some cases the Structural Adjustment Program indicators of the IMF/IBRD/GOT are vague as relates to quantifiable targets. Moreover, in other cases USAID goes beyond the IMF/IBRD/GOT targets and has established more accelerated performance indicators which it hopes to achieve through more intensive policy dialogue connected with CIP, Title I and other Program resources. For example, under the Bank's Agriculture Structural Adjustment Loan the GOT is committed to elimination of subsidies on animal feeds over a period of four years. USAID, through policy dialogue attached to its CIP will attempt to achieve full elimination by FY-88.

If the GOT does not attain these key Structural Adjustment Program objectives in the next three to four years the economy will not be able to register per capita growth, and will come under increasing balance of payments pressure as food imports will need to be increased, as the net balance of agricultural trade worsens. The resulting reduction in foreign exchange will mean less foreign exchange available for investments, which would seriously damage the GOT's job creation efforts at a time when unemployment is already a very serious political and social problem.

B. Housing Guaranty Program Disbursements

In the spirit of responsiveness to the GOT's Economic Adjustment Program and to help Tunisia's balance of payments situation we have been taking steps to accelerate the HG Program. Funds in the amount of \$10 million are in the process of being shifted from a portion of the ONAS sub-project which could not commence until 1989, to the AFH/CNEL program, thereby enabling additional sites which are already in construction to be included in the program. An amendment to the Housing Program Agreement to accomplish this reapportionment of funds should be signed by March 1987 and will be reflected in the next borrowing

We are continuing to explore other possibilities for accelerating disbursements. For example, the GOT suggests that the present median income applicable to the sites and services sub-program is outdated and needs to be adjusted. Increasing median income would facilitate marketing and allow the GOT to present eligible mortgages more rapidly, resulting in faster liquidation of outstanding advances and accelerating subsequent borrowings. Based on RHUDO's knowledge RHUDO agrees that median income should be increased and will move to do so as soon as the GOT provides appropriate data.

Additionally we expect to resolve the details of the "savings for land" private developer sub-programs during Spring 1987 and amend the Housing Program Agreement. Upon completion of that process (and with the provision of an updated Program Implementation Plan) it will be possible to disburse funds against the additional \$15 million authorized in late FY 1986. We are impressed with the progress being made by GOT institutions both with regard to the policy objectives of HG-004B and program execution and will continue to seek ways to accelerate disbursements in keeping with the unique requirements of the Housing Guaranty Program and with sound project management practices.

C. TECHNOLOGY TRANSFER PROJECT PLANS

The Mission has been engaged in a long term dialogue with the GOT to redesign the Technology Transfer Program. We have enlisted the serious support of the Ministries of Foreign Affairs (MOFA) and of Plan and Finance (MOPF) in this dialogue along with the project counterpart, the Ministry of Education, Training and Scientific Research (METSR). To date, a number of significant agreements have been obtained in principle to undertake needed actions and mutual understandings have been reached in a number of important design and strategy aspects which (1) refocus the program on development priorities within the structural adjustment context (2) render the program more consistent with AID participant training policy, and (3) recognize GOT and USG financial constraints.

Implementation experience to date and data on returned participants have suggested that the program is too oriented towards under-graduate training. Also, the narrow focus on engineering and science degrees has limited flexibility of the program to respond to changing needs of the Tunisian economy. The financial means available to the program from both GOT and USG sources are increasingly limited, or at best static, rendering the current design financially untenable in the out years.

The Mission's negotiating position with METSR has been founded on three hypotheses: (1) the present form, structure, and content of the program are suboptimal with respect to maximizing use of human and financial resources, (2) the ongoing structural adjustment program and the slowly emerging changed economy require a revamped strategic program direction, and (3) certain changes are required in institutional roles to render more effective the trained human resource output of the project. In accordance with the above, the Mission has pursued a dialogue which has reached preliminary agreements on the following:

- The annual number of students pursuing degree programs will be reduced. Currently 515 students are studying under AID financing in the 1986/87 school year. METSR has agreed in principle to reduce this number to 400 or less by the 1988/89 school year.

- Reduced emphasis on undergraduate training. METSR, MOFA and MOPF have responded positively to a USAID proposal to eliminate entirely all new students starts for B.S. programs by the 1988/89 school year.

- Increased emphasis on graduate training, particularly at the M.S. level. METSR has agreed in principle to increasing M.S. training both from new student starts and from a reduction in the number of students allowed to continue to the M.S., from receipt of the B.S. The M.S. degree is perceived as a practical degree which is marketable in the private sector, academia and the public sector.

50 Limitations on the number of Ph.D.s trained. METSR has agreed to limit the Ph.D. output of graduates per year to a number consistent with needs in the Tunisian university system, the primary employer of Ph.D.s at this stage of Tunisia's development. The Mission, in addition, has proposed a Ph.D. output of 10 per year to enable more concentration at the M.S. level and to decrease the financial drain on the program since Ph.D.s usually require at least four years of study beyond the M.S.

- Increased training diversification. The ongoing structural adjustment process has suggested a need for graduates in social science and business such as management, economics, statistics, accounting, finance and related fields. METSR has agreed to expansion of the program focus.
- Coupling student placement in degree fields with professional labor market demand. METSR has agreed to an updated study of demand for program output and to adhere to study findings for placement of students in needed majors.
- Active job placement assistance to returned graduates. Technical assistance in placement, expected in March 1987, will assist METSR and several GOT employment organizations to organize for effective job acquisition.
- Improved communications and data flow between METSR, the Scientific Mission for Tunisia in Washington, D.C. (MUST), the Mission and ST/IT. METSR and MUST have changed their communications protocol to allow AID/W and the Mission now to communicate directly with MUST. MUST also will undertake a software upgrade to enable more complete and faster production of data required by AID's participant training regulations.

Dialogue on the above redesign issues is still underway. Personnel changes in METSR and MUST combined with the unique political sensitivity of the program have acted to prolong the redesign process. Nonetheless, we are encouraged by the positive strides made so far and we believe that issues will be resolved in a way satisfactory to all parties.

The Mission anticipates full resolution and final agreement on all the above redesign features by May 1987, enabling their incorporation in PROAG Amendment No. 7, which is expected to be obligated by June 1987.

D. MANAGEMENT/WORKFORCE ISSUES
(See Section III. D.)

E. PLAN FOR DEVELOPING A TRANSITION STRATEGY

If the medium term Structural Adjustment Program is not derailed by exogenous factors, Tunisia's re-entry into the ranks of growing middle income economies will call for a new development approach by the USG. The political and security rationale for ESF or other assistance will make probable the continuation of some program activities in Tunisia at that time.

Planning will take several forms. Continued data gathering and analysis over the next 18 months will be undertaken to permit the USG to make an informed decision on when Tunisia will have regained sufficient economic health to permit new types of interactions. Once it is clear that policies undertaken have been followed and are working, the Mission will examine interalia the following options:

- Creation of an endowment to permit exchange between the US and Tunisian scholars and scientists
- Continuation of a scholarship program aimed at providing US training in a variety of selected areas
- A Science and Technology Strategy which builds on Tunisia's excellent education system and prepares Tunisia for its entry into upper middle income status
- A combination of the above with the addition of Private Sector facilitating activities

Thus, starting in approximately 18 months a series of analyses and studies will be undertaken, essentially using PD&S funds to define the areas where US interventions can make a positive difference and contribution. On conclusion of these sectorial analyses and, assuming a hospitable political environment, the Mission will be in a position to present a provisional transitional plan to AID/W.

NEW PROJECT DESCRIPTION

IMPROVED WATER RESOURCES MANAGEMENT PROJECT (664-0345)

I. The Development Problem

After a decade of steady growth and expansion in the 1970s, the performance of the Tunisian economy has entered into a period of decline. Reduced growth has been particularly evident in the agricultural sector. Agriculture accounts for only about 13 percent of the GDP and 8 percent of export earnings, although the sector provides nearly 33 percent of the total employment. This has led to a widening "food gap" which has placed an increasing strain on the country's balance of payments.

In response to the mounting problems in agriculture the GOT has embarked on an ambitious Structural Adjustment Program (ASAP), supported by the World Bank, which envisions major policy reforms to redress the situation. Under this program the agriculture sector is viewed as an increasingly vital element in Tunisia's overall economic growth with strong potential for increases in production, exportation and domestic employment.

The contribution of the irrigated sub-sector to overall agricultural production is significant. Although only 3 percent of arable land is irrigated, recent studies show that it accounts for about 25 percent of agricultural GDP. Nevertheless, its contribution could have been much higher if more intensive use had been made of the irrigable areas. In 1984, for example, only about 160,000 hectares were actually irrigated out of 205,000 hectares equipped, giving an overall irrigation intensity of 78 percent. In the public systems average intensity was only 66 percent while the private systems registered 86 percent.

There are several reasons why these figures are so low and reasonable expectations of 100 percent or more irrigation intensity have not yet been achieved. Governmental management of public systems has generally been inefficient causing water supply and delivery timing problems. Poor public management of input services has impeded the timely and adequate provision of inputs necessary for supporting intensive production activities. Virtual non-involvement of private Water User Associations (WUAs) in O&M and water management activities has led to serious deterioration of infrastructure and wasting of scarce water resources. And extension services have not been effective in encouraging appropriate cropping patterns or promoting water-saving technologies and agronomic practices.

In the future, improved efficiency of irrigation performance will be of paramount importance to the prospects of overall success of the ASAP and vice-versa. As ASAP policy reforms (elimination/reduction of subsidies on production inputs and water use, full recovery of irrigation O&M costs from users, full costing of public services, etc.) are enacted, production in the irrigated sub-sector

will simply have to become more efficient if farmers are to maintain and improve their livelihoods.

II. Priorities and Relationship to A.I.D. Policy

The priorities of the GOT's Agricultural Structural Adjustment Program and Seventh Plan for Economic Development (1987-91) focus on the key areas of improved efficiency of resource use, expanded labor-intensive economic development, and increased exportation. Under the Mission's overall Agricultural Strategy, this proposed Improved Water Resources Management Project (IWRM), linked to the -- Agricultural Policy Implementation Project (APIP) -- Commodity Import Program (CIP) -- and the PL 480 Program fully supports the GOT's development approach. Within this linkage it is envisioned that CIP proceeds will be used to transfer the ownership of public assets to private enterprises. This could include for example, private water user associations assuming the ownership and management of public irrigation systems. Under the APIP Project, monitoring of economic change in the irrigation sub-sector will be conducted along with detailed analyses of improved irrigation models. The resulting data and information will be fed directly into the implementation of the IWRM Project.

The Project will also incorporate many of the policy reforms being undertaken by the GOT to make agriculture more economically competitive and productive. The efficient allocation and use of resources through the elimination of subsidies on production inputs, progressive reduction of subsidies on water use, full recovery of O&M costs from users; and the expansion of the private sector role in input/output services and irrigation management-- are all reforms that fall within the mainstream of A.I.D. development policy. In addition, the Project will heavily depend on private U.S. technical assistance in water management, irrigation cropping systems, and private cooperative management, which strongly supports A.I.D.'s policy of expanding the use of U.S. private sector organizations.

With respect to other donor activities, the Project will promote the policy reforms of the IBRD-assisted Structural Adjustment Program and directly complement the Bank's Irrigation Management Improvement Project.

III. Project Solution

The implementation of policy reforms under the ASAP will have a direct impact on the irrigated sub-sector. The reduction/elimination of subsidies on production inputs and water use, market-level pricing of agricultural services, etc. will force irrigated farmers to measurably boost their production efficiency or face the consequences of lower net returns.

The introduction of freer market policy reforms into the controlled agricultural economy provides a favorable environment for fostering improvements in growth and efficiency. Implementation is the next step. As with all change, there is a period of transition where the affected parties must be sensitized and provided with the technical

means to readily adapt and eventually prosper in the changing environment. The IBRD-assisted Irrigation Management Improvement Project provides some of this support linkage between national policy reform and irrigation sector improvement. However, its primary emphasis is directed toward rehabilitating and maintaining infrastructure, and enhancing the technical capability of public sector organizations to effectively administer and manage irrigation systems.

What is lacking in this approach is direct and concentrated support to the vital elements whose performance is critical to the overall successful growth of the sector. These include: farmers, who must ultimately manage the farm-level irrigation and cropping systems; the extension service, which is charged with sensitizing farmers to appropriate cropping and improved technology; the private water user associations (WUA) who must play an increasingly important role in managing both public and private systems; and the private service cooperatives, which will undertake increasing responsibilities for furnishing production/marketing services to the sub-sector. It is precisely these "missing elements" in the overall GOT/IBRD development strategy that the proposed Project will address. The complementarity of development support will result in a more comprehensive approach to tapping the potential of the irrigation sub-sector, and ultimately contribute to the successful implementation of the structural reforms in the agricultural sector as a whole.

IV. Tentative Project Description

Goal: In support of the GOT Agricultural Structural Adjustment Program, to improve the efficiency of resource allocation and use, and to expand labor-intensive economic development.

Purpose: To measurably expand the productivity and efficiency of irrigated agricultural production through improved private management of irrigation systems and production services.

End-of-Project Indicators:

- o Reduced GOT subsidy costs for the sub-sector and increased benefits from greater private participation in irrigation system ownership and management;
- o Reduced farmer costs per unit of output under improved irrigation systems;
- o Higher potential for increase in exportable agricultural produce under more controlled production conditions;
- o Significant potential for creation of additional employment in labor-intensive irrigated systems and in the processing and marketing of high value crops.

In support of the above objectives, the IWRM Project will be implemented through the Ministry of Agriculture's Office of Irrigation (OMV). It will be national in perspective and, to ensure maximum payback during its short 4 year life, will target public and private irrigation systems where private water user associations and

farmer service cooperatives already exist. The primary activity components proposed are technical assistance and training; and pilot schemes, demonstration and dissemination of improved irrigation methods and technologies.

Technical Assistance and Training - under this component professional expertise (long and short term) will be provided to a variety of public and private entities in the irrigation sub-sector. At the farm level, TA support will be provided to farmers (through OMV extension agents and the water user associations) in improving the technical efficiencies of on-farm water use and developing more appropriate cropping patterns. TA and training for extension agents will focus on developing a more effective and timely transfer of agronomic, water management and technology information to the farm level. Water user associations will receive special attention with training and professional guidance being directed at organizational development, accounting and management improvement. This will be a critical element in the Project that will determine the extent to which the WUAs will be able to effectively assume the responsibilities of ownership and management of the irrigation systems. Additionally, attention will be focussed on upgrading the management and entrepreneurial capabilities of private farmer cooperatives as they undertake an increasing share of input service and marketing activities in the irrigated sub-sector.

Pilot Schemes, Demonstration, and Dissemination of Improved Irrigation Methods and Technology: Drawing on research and technology diffusion conducted in central and northern Tunisia, new technology and alternative irrigation methods will be tested and evaluated as to cost, water efficiency and appropriateness for small Tunisian farms. Testing, demonstration and refinement will be done on farmer fields and promising results will be disseminated to farmers by extension agents and the WUAs.

Cost and LOP: Technical assistance, training, pilot schemes and demonstrations, and commodities estimated at \$9.5 million over 4 year project life.

PID Approval: As major policy issues have been addressed in the design of the Agricultural Policy Implementation Project, Mission intends to ask for delegation of PID approval to the field. The Mission perceives no major strategic, technical or legislative problems associated with this project which would require AID/Washington attention.

ATTACHMENT B

WORKFORCE TABLES

USAID/TUNISIA

	FY'86 (<u>actual on board</u>)	FY'87 (<u>Planned</u>)	FY'88 (<u>Planned</u>)
<u>I. U.S. Direct Hire:</u>			
<u>Office of the Director</u>			
Mission Director	X	X	X
Executive Assistant	X	X	X
<u>Executive Office</u>			
Executive Officer	X	X	X
<u>Program Office</u>			
Supervisory Program Officer	X	X	X
Program Officer	X	X	X
<u>Project Management Office</u>			
Supervisory Project Development Officer	X	X	X
Ag. Economist	-	X	X
Ag. Dev. Officer	X	X	X
Proj. Dev. Officer	X	X	X
Rural Dev. Officer	X	X	-
Project Dev. Officer	-	-	X
<u>Office of the Controller</u>			
Controller	<u>X</u>	<u>X</u>	<u>X</u>
Total USDH	10	11	11
<u>II. PASAs</u>			
Program Economist (Project-funded with USDA)	X	X	X

WORKFORCE TABLES

USAID/TUNISIA

	FY'86 <u>(actual on board)</u>	FY'87 <u>(planned)</u>	FY'88 <u>(Planned)</u>
<u>III. U.S. Personal Services</u>			
<u>Contracts</u>			
HPN Advisor	X	X	X
Prog. Asst.	X*	X*	X
Accountant	X*	X*	X
Asst. PDO	-	X**	X
<u>IV. FN Direct Hire</u>			
<u>Office of the Director</u>			
Chauffeur	X	X	X
Personnel Asst.	X	X	X
<u>Program Office</u>			
Prog. Specialist	X	X	X
Translator	X	X	X
Secretary	X	X	X
<u>Office of the Controller</u>			
Chief Accountant	X	X	X
Secretary	X	X	X
<u>Office of Project Management</u>			
Prog. Specialist	X	X	X
Prog. Specialist	X	X	X
Prog. Specialist	X	X	X
Secretary	X	X	X
Secretary	X	X	X
<u>Executive Office</u>			
Mail clerk	X	X	X
Driver	-	X	X
Total FSNDH	<u>13</u>	<u>14</u>	<u>14</u>

* Part time

** Project funded PSC

WORKFORCE TABLES

USAID/TUNISIA

	FY'86 (<u>actual on board</u>)	FY'87 (<u>planned</u>)
<u>V. Foreign National Personal Services Contracts</u>		
Training Specialist	X	X
Secretary	X**	X
Accounting Specialist	X	X
Voucher Exam.	X*	X*
Voucher Exam.	X*	X*
Accountant	X	X
Program Specialist	X	X
Secretary	X	X
C&R Specialist	X	X
Admin. Asst.	X	X
Secretary	X	X
Driver	X	X
Tel Operator	X	X
<u>VI. Regional Housing Office (RHUDO)</u>		
Housing Officer	X	X
Asst. HG Officer	X	X
Asst. HG Officer	X	X
Asst. HG Officer/IDI	X	X
<u>VII. PSCs (RHUDO)</u>		
Admin. Asst.	X	X
Secretary	X	X

* Part time

** On Purchase Order. Expected to be on contract in FY-87

FY 1987/88 EVALUATION PLAN
 FY 1988-89 ACTION PLAN
 COUNTRY/OFFICE: USAID/TUNISIA

Page 1 of 4 pages

Activity Description (Project No. & Title)	Last Eval Completed (Mo./Yr.)	FY 1987		FY 1988		Reasons/Issues	Funding Source (\$000)	USAID Person Days	Probable Assistance Needed
		Start To (Qtr)	AID/W (Qtr)	Start To (Qtr)	AID/W (Qtr)				
PL 480 Title I	11/86	1* 3*	2* 3*	1* 3*	2* 3*	Annual assessment of PL 400 Title I Self Help, local currency uses and USAID comments	PD&S 45	40	ICC for 40 person days
IIPWP II (812-0007)	12/86	1*	2			PACD: N/A The project aims to strengthen the management capacity of the technical service divisions in selected interior towns in Tunisia by providing training and orientation to technical cadres in charge of implementing squatter neighborhood upgrading. The evaluation will assess the effectiveness of project activities in achieving both originally defined and subsequently modified goals and objectives.	PRE/H 9		2 Consultants for 3 weeks

*Dates differ from FY-1987-88 Evaluation Plan in the ABS

Mission Evaluation Officer: Louis P. Macary (SA)
 Program Officer

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FY 1987, 88 EVALUATION PLAN
 FY 1988-89 ACTION PLAN
 COUNTRY/OFFICE: USAID/TUNISIA

Page 2 of 4 pages

Activity Description (Project No. & Title)	Last Eval Completed (Mo./Yr.)	FY 1987		FY 1988		Reasons/Issues	Funding Source (000)	USAI Person Days	Probable Assistance Needed
		Start (Oct)	To AID/W (Oct)	Start (Oct)	To AID/W (Oct)				
Emergency Housing Repair and Reconstruction 664-0329 and HG 004A		3*	4*			PACD: N/A HG-004A 6/87 (0329A) 7/85 (0329B) <u>The project aims to provide grants and loans to below median income families for the reconstruction and repair of their homes damaged by floods in 1982. The evaluation will assess the quantitative and qualitative achievements of the project in terms of meeting its originally stated goals and objectives.</u>	PRE/II 30	12	1 PRI/II expert for 2 weeks 1 consultant for 4 weeks
Computer Technology 664-0334				1*	2*	PACD: 3/89 <u>This is a mid-term evaluation to determine whether project's implementation is on schedule and what, if any, adjustments are necessary.</u>	Project 100	50	Contract

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FY 1987/88 EVALUATION PLAN
 FY 1988-89 ACTION PLAN
 COUNTRY/OFFICE: USAID/TUNISIA

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Activity Description (Project No. & Title)	LAE Eval Completed (No./Yr.)	FY 1987		FY 1988		Reasons/Issues	Funding Source (\$000)	USAID Person Days	Probable Assistance Needed
		Start (Qtr)	To AID/W (Qtr)	Start (Qtr)	To AID/W (Qtr)				
Housing Guaranty 664-UG-0048	-		2*	2*	PACD: N/A The project seeks to extend and upgrade sewerage services in Tunis and in Tunisian secondary cities and towns, and to improve the urban land delivery process for the benefit of low-income families. This evaluation will verify the project's progress on improvements in living conditions, infrastructure tariff rates, demand for serviced sites and institutional capacity and performance by AFH and QNAS.	PRE/H & 50	30	1 AID/W ANI expert for 4 weeks 1 AID/W PRE/H expert for 4 weeks 2 consultants for 4 weeks	
Really Planning 664-0331			2*	3*	PACD: 6/89 An in-house PES will be undertaken primarily to document progress to date and problems identified and anticipated, and to propose any corrective actions and performance by AFH and QNAS.	Project 100	50	N/A	

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Activity Description (Project No. & Title)	Last Eval Completed (Mo./Yr.)	FY 1987		FY 1988		Reasons/Issues	Funding		USAID Person Days	Probable Assistance Needed
		SEAF To (Qtr)	AID/W (Qtr)	Start To (Qtr)	AID/W (Qtr)		Source (\$,000)			
Housing Guaranty 664-HG-003B/ IIPUP I (912-0007)	9/83			2*	3*	PACD: N/A (HG-003B) N/A (IIPUP I) The project aims to upgrade 4570 slum housing units and provide 2892 new core-type housing units in the greater Tunis region. The evaluation will assess the project's effectiveness in achieving its original objectives including its efforts to reinforce prior GOT lower income shelter initiatives and encourage further policy shifts in the sector. The evaluation will also analyze the success of the socio-economic activities funded in support of HG-003B under the IIPUP I project.	PRE/H	30	12	1 PRI/H expert for 2 weeks 1 consultant for 4 weeks
CTRD Range Development 664-0312.8	5/86			2*	3*	PACD: 5/89 The evaluation will determine whether project implementation adjustments are necessary.	Project	60	20	1 QC for 24 Person Days 1 AID/W ANE Technician for 20 Person Days

WANG 0412P

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ATTACHMENT D

PRIVATE SECTOR STRATEGY DEVELOPMENT PLAN

The recently commenced economic structural adjustment program has opened development opportunities in financial intermediation and privatization which could merit AID support. Additionally, a recent evaluation of the existing Private Sector Project suggested that trade liberalization should be a strategic focus of the Project given Tunisia's worsening balance of payments position and need to earn FX and increase the returns to capital employed through exporting.

Within the structural adjustment process, the GOT is deregulating its economy, permitting increased competition and use of market forces to determine investment allocation, production and consumption patterns. As part of this process, the GOT is seriously interested in further liberating its export trade regime, developing its financial markets, and reformulating policy with respect to its public sector industrial complex and divestment possibilities.

The GOT faces numerous constraints to achievement of its structural adjustment goals in these areas. Through government over-control and detailed regulation, the non-petroleum/mineral export trade base of the economy has not been allowed to achieve adequate rates of growth or the returns to capital needed to generate FX to service debt and to pay for needed imports. The institutional base has not responded with effective support for the developing private sector's trade needs. Financial markets have remained static since administered interest rates have hindered the free flow of capital and prevented rational allocation of investment funds. The institutional structure also has not provided the financial mechanisms and financing required to permit increased private sector asset growth and contribution to GNP. Constraints to privatization have been, until recently, unaddressable, given the GOT's previous policy of state ownership of most of the country's productive plant and equipment. Cracks in the policy facade are widening under structural adjustment, however, and we see potential for redirection of GOT policy towards increased private ownership under the aegis of structural economic change.

Formulating an AID private sector strategy to respond to the dynamic Tunisian economic situation is a major task facing the Mission during the coming months. Although the existing Private Sector Project has financed several successful activities, only recently has the Project begun to focus efforts to respond to the new climate created by the structural adjustment program. In addition, the Mission's portfolio already contains various elements of private sector support, including the PL 480 Section 108 program, which could benefit from a more strategic programming approach.

Based on the Mission's initial analysis of developmental constraints identified amid the emerging process of structural change, a possible three cornered strategy is being examined which would emphasize trade liberalization, financial intermediation, and privatization.

To develop its private sector strategy the Mission plans to examine with GOT counterparts the proposed focus for private sector support, to implement and evaluate selected subproject activities under the existing Project to enlarge our understanding of the issues involved and to formulate a strategy which meets developmental needs and suggests a mix of appropriate and feasible AID interventions.

The Mission plans to seek both AID/W and outside support for development of the strategy after initial activities in each area of proposed emphasis are implemented. The April 1987 Privatization Conference will serve as a wide forum for substantive dialog with GOT officials and private sector representatives. We will elicit reaction to our proposed triple focus and attempt to expand the depth and breadth of our contacts. A possible outcome of the conference may be establishment of a working group with which USAID will engage in collaborative development of an appropriate strategy. We expect that this, in conjunction with AID/W support, will buttress the Mission's present in-house capabilities and private sector development experience and consolidate our strategy development process to enable submission to AID/W for review during Program Week in April FY 1988.

In the next few months, the Mission's efforts to support the private sector will be focussed on the three strategy areas. The following types of activities are underway or under discussion with the GOT:

Trade Liberalization: To further develop the institutional context for increased liberalized trade, the Mission is discussing technical and training assistance to two GOT organizations, CEPEX (Center for Promotion of Exports) and COTUNACE (Tunisian Company for Export Credit Insurance), and one private organization, FEDEX (Federation of Private Exporters). Testing the feasibility of exportation of processed Tunisian foods to foreign markets is of interest to the Mission's principal counterpart, the Ministry of Agriculture. We will investigate this activity fully cognizant of the limitations placed on export initiatives by Policy Determination Number 15 (dated 9-13-86). Possible assistance to the Center for Export Training at the ISG (Higher Institute of Management) will be explored.

Financial Intermediation: This area represents a new Mission undertaking. A Seminar for Securities Markets Development for selected members of the Tunisian financial sector will be a first step in response to GOT interest. We would expect to develop a subproject to support financial markets development areas identified in this Seminar. Future activities could support financial markets technical assistance to the Tunis Stock Exchange, development of

capital markets legislation, and actions with specific companies such as preparation of offering prospectuses, structuring of company capitalizations and corporate finance etc. Additionally, subprojects in commercial bank project appraisal, loan appraisal, and flotation of bonded debt for private firms look promising.

Privatization: The Mission has planned and organized the April 1987 Macro-Privatization Conference designed to build constituent support among decision makers in the GOT and public/private sectors for the concept of privatization. A follow-on Fall 1987 Agricultural Sector/Privatization Techniques conference is proposed to complement the Mission's agriculture strategy and move the GOT to increased support for divestment. We are exploring a possible subproject to provide Privatization Support Services (such as development of national/sectorial strategies and plans, and specific divestment support). Additionally, work will continue with the small and medium enterprise sector to increasingly develop a base of strong, private sector firms for increased production and employment.