**OFFICIAL USE ONLY**
R2017-0044/2

March 15, 2017

**Closing Date: Wednesday, March 15, 2017 at 6 p.m.**

FROM: Vice President and Corporate Secretary

## Tunisia - Integrated Landscapes Management in Lagging Regions Project

### Extension of Closing Date

1. Due to the inclement weather and the closure of WBG Washington, D.C. offices in effect Tuesday, March 14, 2017, the closing date for a proposed loan to Tunisia for an Integrated Landscapes Management in Lagging Regions Project (R2017-0044) is being extended by one day to **Wednesday, March 15, 2017**.

2. Questions on these documents should be referred to Mr. Gerber (ext. 80517) or Mr. Bennouna (Tunis: 5714+3046 or tbennouna@worldbank.org).

Distribution:
Executive Directors and Alternates
President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC and MIGA

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R2017-0044/1

February 23, 2017

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**Closing Date: Tuesday, March 14, 2017 at 6 p.m.**

FROM: Vice President and Corporate Secretary

**Tunisia - Integrated Landscapes Management in Lagging Regions Project**

**Project Appraisal Document**

Attached is the Project Appraisal Document regarding a proposed loan to Tunisia for an Integrated Landscapes Management in Lagging Regions Project (R2017-0044), which is being processed on an absence-of-objection basis.

Distribution:
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Document of
The World Bank

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Report No: PAD1520

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

# PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF EURO 93.1 MILLION
(US$100 MILLION EQUIVALENT)

TO THE

REPUBLIC OF TUNISIA

FOR AN

# INTEGRATED LANDSCAPES MANAGEMENT IN LAGGING REGIONS PROJECT

February 21, 2017

*Environment & Natural Resources*
*MIDDLE EAST AND NORTH AFRICA*

## CURRENCY EQUIVALENTS

(Exchange Rate Effective January 31, 2017)

(1 USD = 0.93 EUR)

| | | |
|---|---|---|
| Currency Unit | = | Euros (EUR) |
| EUR | = | US$1.07 |
| US$ | = | 0.93 |

## FISCAL YEAR

January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| AC | Annual Contracts |
| ADEB | Central Aid for Budget Decision (*Système d'aide à la décision budgétaire)* |
| AFD | French Development Agency (*Agence Française de Développement)* |
| AfDB | African Development Bank |
| AMP | Aromatic and Medical Plants |
| AP | Agricultural Products |
| APIA | Agency for the Promotion of Agricultural Investments (*Agence de Promotion des Investissements Agricoles)* |
| APII | Agency for the Promotion of Industry and Innovations (A*gence de Promotion de l'Industrie et de l'Innovation)* |
| ARAP | Abbreviated Resettlement Action Plan |
| AWPB | Annual Work Plans and Budgets |
| BMO | Budget management by objectives |
| CBO | Community-Based Organizations |
| CBT | Central Bank of Tunisia (*Banque Centrale de Tunisie*) |
| CDD | Community Driven Development |
| CDL | Local Development Councils |
| CEPEX | Exports Promotion Center (*Centre de promotion des exportations*) |
| CFRMA | Community Forestry and Rangeland Management Agreement |
| CGF | Supreme Audit Institution *(Contrôle Général des Finances)* |
| CNI | National Computing Center (*Centre d'Informatique National*) |
| COPIL | Steering Committee *(Comité de pilotage)* |
| COSTAB | Financial Analysis Software |
| CPD | Community Participation in Development |
| CPF | Country Partnership Framework |
| CRDA | Regional Agricultural Development Commission (*Commissariat Régional de Développement Agricole)* |
| CRI | Competitiveness Reinforcement Initiatives |
| CSI | Core Sector Indicator |
| CSO | Civil Society Organization |
| CTA | Agro-industry Technical Center (Centre technique de l'Agro-Alimentaire) |
| DA | Designated Account |
| DAF | Administrative and Financial Directorate |
| DSE | Socioeconomic Directorate (*Direction Socio-économique*) |
| DGACTA | General Directorate of Land Development and Conservation (*Direction Générale de l'Aménagement et de la Conservation des Terres Agricoles)* |

| | |
|---|---|
| DGAJF | General Directorate for Legal Affairs and Land Use (*Direction Générale des Affaires Juridiques et Foncières)* |
| DGF | General Directorate of Forests (*Direction Générale des Forêts*) |
| DGFIOP | General Directorate of Funding Investments and Professional Organizations (*Direction Générale du Financement, des Investissements et des Organismes Professionnels* |
| DGAB | General Directorate of Organic Farming (*Direction Générale de l'Agriculture Biologique*) |
| DGIA | General Directorate of Agrofood Industry (*Direction Générale des Industries Agroalimentaires*) |
| DGPA | General Directorate of Agricultural Production (*Direction Générale de la Production Agricole)* |
| DPO | Development Policy Operation |
| DRC | Directorate of Regulations and Control (*Direction de Réglementation et Contrôle*) |
| DRPS | Department for Afforestation and Soil Protection *(Division du Reboisement et la Protection des Sols)* |
| EA | Executing Agency |
| EDP3 | Third Export Development Project |
| EIRR | Economic Internal Rate of Return |
| ESMF | Environmental and Social Management Framework |
| ESMP | Environmental and Social Management Plan |
| ESS | Enterprise Support Services |
| EU | European Union |
| EX-ACT | Ex-ante Carbon balance Tool |
| FAO | Food and Agriculture Organization of the United Nations |
| FDES | Environmental and Social Diagnostic Fact Sheet |
| FIES | Environmental and Social Information Fact Sheet |
| FIP | Forest Investment Program |
| FM | Financial Management |
| FMO | Financial Management Officer |
| FPC | Forest Products for Consumption |
| GDA | Agricultural Development Groups (*Groupement de Dévelopment agricole*) |
| GDP | Gross Domestic Product |
| GEF | Global Environment Facility |
| GHG | Greenhouse Gas |
| GIS | Geographic Information System |
| GRM | Grievance Redress Mechanism |
| GRS | Grievance Redress Service |
| GTZ | German Agency for Technical Cooperation ( (*Deutsche Gesellschaft fur Technische Zusammenarbeit*), replaced by GIZ) |
| Ha | Hectare |
| HDI | Human Development Indicators |
| IBRD | International Bank for Reconstruction and Development |
| IDRC | International Development Research Center |
| IFAD | International Fund for Agricultural Development |
| IFI | International Financial Institution |
| IFR | Interim Financial Reports |
| ILM | Integrated Landscape Management |
| ILDP | Integrated Landscape Development Plans |
| INAT | Tunisian National Agronomic Institute (*Institut National Agronomique de Tunisie*) |
| INRGREF | National Research Institute on Rural Engineering, Water, and Forests (*Institut National de Recherche en Génie Rural, Eaux, et Forêts)* |
| IR | Intermediate Results |
| IRR | Internal Rate ff Return |
| ISR | Implementation Status and Results Report |
| IUFR | Interim Unaudited Financial Report |

| | |
|---|---|
| JEFF | Jobs, Entrepreneurship, Finance and Fiscal Sustainability |
| JICA | Japan International Cooperation Agency |
| LDC | Local Development Council *(Conseil local de Développement)* |
| LU | Landscape Units |
| MARHP | Ministry of Agriculture, Water Resources, and Fisheries |
| MENA | Middle East and North Africa |
| MELA | Ministry of Environment and Local Affairs |
| MIDCI | Ministry of Development, Investment, and International Cooperation (*Ministère du Développement de l'Investissement et de la Coopération Internationale*) |
| MOP | Project Operational Manual (*Manuel Opérationnel du Projet* |
| MRV | Measurement, Reporting, and Verification |
| MSME | Micro, Small, and Medium Enterprises |
| MSPG | Multisectoral Partner Group |
| MTFF | Medium-Term Fiscal Framework |
| M&E | Monitoring and Evaluation |
| NPF | New Procurement Framework |
| NPV | Net Present Value |
| NRM | Natural Resource Management |
| ODESYPANO | Authority for Forest-Pastoral Development of the Northwest (*Office de Développement Sylvo-pastoral du Nord-Ouest*) |
| ODCO | Authority for the Development of the Center-West (*Office de Développement du Centre Ouest*) |
| ODNO | Authority for the Development of the Northwest (*Office de Développement du Nord Ouest*) |
| OEP | Office for Livestock and Pastures (*Office de l'Elévage et de Pâturages*) |
| O&M | Operating and Maintenance |
| ONH | National Office of Oils *(Office National d'Huile)* |
| ONMP | National Boared for Public Procurement (*Office national des Marchés publics*) |
| PA | Productive Alliance |
| PAD | Project Appraisal Document |
| PAP | Project-Affected Person |
| PDO | Project Development Objective |
| PBB | Performance-Based Budgeting Reform |
| PEFA | Public Expenditure and Financial Accountability |
| PF | Process Framework |
| PFM | Public Finance Management |
| PGF | Productivity and Growth Fund |
| PGIF | Forest Integrated Management Project (*Projet de Gestion Intégrée des Forêts)* |
| PGRN2 | Tunisia Second Natural Resources Management Project |
| PO | Producer Organizations |
| POM | Project Operational Manual |
| PPSD | Project Procurement Strategy for Development |
| RC | Regional Council |
| RFMO | Regional Financial Management Officer |
| RPF | Resettlement Policy Framework |
| RPIT | Regional Project Implementing Team |
| SBD | Standard Bidding Documents |
| SFRM | Sustainable Forest and Rangeland Management |
| SIADE | Computerized System to Support External Debt (*Système informatisé d'aide à la dette extérieure)* |
| SLM | Sustainable Land Management |
| SMSA | Mutual Society for Agricultural Services (*Société Mutuelle de Services Agricoles)* |
| SOE | Statement of Expenditures |
| SMVDA | Enhancement and Agricultural Development (*Société Mise en valeur & Develop agricole*) |
| SP | Service Providers |

| | |
|---|---|
| SSEP | Monitoring System for Evaluating the Execution of Public Projects (*Systeme de suivi d'evaluation de l'execution des projets publics)* |
| STAR | System for Transparent Allocation of Resources (at the GEF) |
| STEP | Systematic Tracking of Exchanges In Procurement |
| SVA | Shared Value Alliance |
| TD | Tunisian Dinars |
| TOR | Terms Of Reference |
| TSA | Treasury Single Account System |
| UDLGP | Urban Development and Local Governance Program for Results |
| UGO | Project Management Unit (*Unité de Gestion par Objectifs*) |
| UNDP | United Nations Development Program |
| VC | Value Chain |

| | |
|---|---|
| Regional Vice President: | Hafez Ghanem |
| Country Director: | Marie Francoise Marie-Nelly |
| Senior Global Practice Director: | Karin Erika Kemper |
| Practice Manager: | Benoit Paul Blarel |
| Co-Task Team Leaders: | Taoufiq Bennouna, Jade Salhab, Daniel Gerber |

**TUNISIA**
**Integrated Landscapes Management in Lagging Regions**

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**PROJECT APPRAISAL DOCUMENT**

*Tunisia*

*Integrated Landscapes Management in Lagging Regions Project (P151030)*

**PAD DATA SHEET**

*MIDDLE EAST AND NORTH AFRICA*

*0000009273*

Report No.: PAD1520

| **Basic Information** | | |
|---|---|---|
| Project ID<br>P151030 | EA Category<br>B - Partial Assessment | Team Leader(s)<br>Taoufiq Bennouna, Daniel P. Gerber, Jade Salhab |
| Lending Instrument<br>Investment Project Financing | Fragile and/or Capacity Constraints [ ]<br>Financial Intermediaries [ ]<br>Series of Projects [ ] | |
| Project Implementation Start Date<br>02-October-2017 | Project Implementation End Date<br>29-Sep-2023 | |
| Expected Effectiveness Date<br>02-Oct-2017 | Expected Closing Date<br>29-Mar-2024 | |
| Joint IFC<br>No | | |

| Practice Manager/Manager | Senior Global Practice Director | Country Director | Regional Vice President |
|---|---|---|---|
| Benoit Paul Blarel | Karin Erika Kemper | Marie Francoise Marie-Nelly | Hafez Ghanem |

| | | | |
|---|---|---|---|
| Borrower: Republic of Tunisia | | | |
| Responsible Agency: Ministry of Agriculture, Water Resources, and Fishing | | | |
| Contact: | Mohammed Akremi | Title: | General Manager - DGFIOP |
| Telephone No.: | 21671345234 | Email: | Hamdi.elakermi@ireasa.agrinet.tn |

**Project Financing Data(in USD Million)**

| | | | | | |
|---|---|---|---|---|---|
| [ X ] | Loan | [ ] | IDA Grant | [ ] | Guarantee |
| [ ] | Credit | [ ] | Grant | [ ] | Other |

| | | | |
|---|---|---|---|
| Total Project Cost: | 132.34 | Total Bank Financing: | 100.00 |
| Financing Gap: | 0.00 | | |

| Financing Source | Amount |
|---|---|
| Borrower | 22.34 |
| International Bank for Reconstruction and Development | 100.00 |
| Local Beneficiaries | 10.00 |
| Total | 132.34 |

**Expected Disbursements (in USD Million)**

| Fiscal Year | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 0000 | 0000 | 0000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Annual | 5.00 | 10.00 | 20.00 | 25.00 | 25.00 | 10.00 | 5.00 | 0.00 | 0.00 | 0.00 |
| Cumulative | 5.00 | 15.00 | 35.00 | 60.00 | 85.00 | 95.00 | 100.00 | 0.00 | 0.00 | 0.00 |

## Institutional Data

**Practice Area (Lead)**

Environment & Natural Resources

**Contributing Practice Areas**

Agriculture, Trade & Competitiveness

**Proposed Development Objective(s)**

The project development objective is to improve landscape management and access to economic opportunities for targeted rural communities in the North West and Center West regions of Tunisia.

**Components**

| Component Name | Cost (USD Millions) |
|---|---|
| Laying the foundations for sustainable management of agricultural resources | 14.00 |
| Fostering sustainable regional investments | 80.00 |
| Project Management, Monitoring and Evaluation | 6.00 |

**Systematic Operations Risk- Rating Tool (SORT)**

| Risk Category | Rating |
|---|---|
| 1. Political and Governance | Substantial |
| 2. Macroeconomic | Substantial |
| 3. Sector Strategies and Policies | Substantial |
| 4. Technical Design of Project or Program | Substantial |
| 5. Institutional Capacity for Implementation and Sustainability | Substantial |
| 6. Fiduciary | Substantial |
| 7. Environment and Social | Substantial |

| | |
|---|---|
| 8. Stakeholders | Substantial |
| 9. Other | |
| **OVERALL** | Substantial |

## Compliance

**Policy**

| | |
|---|---|
| Does the project depart from the CAS in content or in other significant respects? | Yes [ ] No [ X ] |
| Does the project require any waivers of Bank policies? | Yes [ ] No [ X ] |
| Have these been approved by Bank management? | Yes [ ] No [ ] |
| Is approval for any policy waiver sought from the Board? | Yes [ ] No [ X ] |
| Does the project meet the regional criteria for readiness for implementation? | Yes [ ] No [ X ] |

| Safeguard Policies Triggered by the Project | Yes | No |
|---|---|---|
| Environmental Assessment OP/BP 4.01 | X | |
| Natural Habitats OP/BP 4.04 | X | |
| Forests OP/BP 4.36 | X | |
| Pest Management OP 4.09 | | X |
| Physical Cultural Resources OP/BP 4.11 | | X |
| Indigenous Peoples OP/BP 4.10 | | X |
| Involuntary Resettlement OP/BP 4.12 | X | |
| Safety of Dams OP/BP 4.37 | | X |
| Projects on International Waterways OP/BP 7.50 | | X |
| Projects in Disputed Areas OP/BP 7.60 | | X |

**Legal Covenants**

| Name | Recurrent | Due Date | Frequency |
|---|---|---|---|
| Value chain development platform established and operational | | 30-Mar-2018 | |

**Description of Covenant**

The Borrower shall, not later than six (6) months after the Effective Date, establish a value chain development ( VCD) platform, consisting of a team of suitably qualified and experienced VCD specialists, whose mandate, composition and terms of reference shall be acceptable to the Bank, or make other arrangements acceptable to the Bank, capable of providing, on terms and conditions acceptable to the Bank, a package of VCD-related support services required under Component 2 (c) of the Project, as more fully described in the Project Operations Manual, including: (a) identification of higher value added market segments for the targeted products, (b) identification of constraints and market-failures that hinder access to such markets, (c) elaboration and preparation of a strategy and program of actions and measures to address such constraints and market-failures, and (d) identification of champions and actors involved or to be involved in the implementation of such strategy and program of actions.

**Conditions**

| Source Of Fund | Name | Type |
|---|---|---|
| IBRD | Project UGO established | Effectiveness |

**Description of Condition**

Project Management Unit (UGO) has been established, with mandate, terms of reference and composition acceptable to the Bank

| Source Of Fund | Name | Type |
|---|---|---|
| IBRD | RPIT staff appointed in each CRDA | Effectiveness |

**Description of Condition**

The staff of each Regional Project Implementation Team (RPIT) has been duly appointed in accordance with terms of reference acceptable to the Bank

## Team Composition

**Bank Staff**

| Name | Role | Title | Specialization | Unit |
|---|---|---|---|---|
| Taoufiq Bennouna | Team Leader (ADM Responsible) | Senior Natural Resources Mgmt. Specialist | Natural Resources Management | GEN05 |
| Daniel P. Gerber | Team Leader | Senior Agricultural Specialist | Agriculture | GFA03 |
| Jade Salhab | Team Leader | Senior Private Sector Specialist | Private Sector Development | GTC05 |
| Blandine Marie Wu Chebili | Procurement Specialist (ADM Responsible) | Senior Procurement Specialist | Procurement | GGO05 |
| Shirley Foronda | Financial Management Specialist | Financial Management Specialist | Financial Management | GGO23 |
| Africa Eshogba Olojoba | Safeguards Specialist | Lead Environmental Specialist | Environmental Safeguards | GEN05 |
| Anders Jensen | Team Member | Senior Monitoring & Evaluation Specialist | Monitoring & Evaluation | GENGE |
| Andrianirina Michel Eric Ranjeva | Team Member | Finance Officer | Financial Management | WFALN |
| Jean-Charles Marie De Daruvar | Counsel | Senior Counsel | Legal | LEGAM |
| Keith W. McLean | Team Member | Lead Governance Specialist | Governance | GGO13 |

| | | | | |
|---|---|---|---|---|
| Leila Chelaifa | Team Member | Program Assistant | Project Support | MNCTN |
| Marie A. F. How Yew Kin | Team Member | Language Program Assistant | Project Support | GEN05 |
| Mohamed Adnene Bezzaouia | Safeguards Specialist | Environmental Specialist | Environmental Safeguards | GEN05 |
| Nina Chee | Safeguards Advisor | Regional Safeguards Adviser | Safeguards | OPSPF |
| Oyebimpe Adepoju | Team Member | Senior Operations Officer | Operation Support | GENGE |
| Renganaden Soopramanien | Counsel | Consultant | Legal | LEGAM |
| Vincent Roquet | Safeguards Specialist | Senior Social Development Specialist | Social Safeguards | GSUGL |

**Extended Team**

| **Name** | **Title** | **Office Phone** | **Location** |
|---|---|---|---|
| Abderrahmane Ben Boubaker | Consultant, Implementation and Community Outreach | | Tunis |
| Alexandra Sokolova | Economist | 390657055220 | Rome |
| Angelo Bonfiglioli | Local Governance Specialist | 33049324-3691 | Vence |

**Locations**

| **Country** | **First Administrative Division** | **Location** | **Planned** | **Actual** | **Comments** |
|---|---|---|---|---|---|
| Tunisia | Beja | | | | |
| Tunisia | Jendouba | | | | |
| Tunisia | Kef | | | | |
| Tunisia | Siliana | | | | |
| Tunisia | Kairouan | | | | |
| Tunisia | Kasserine | | | | |
| Tunisia | Sidi Bouzid | | | | |
| Tunisia | Bizerte | | | | |

**Consultants (Will be disclosed in the Monthly Operational Summary)**

| | |
|---|---|
| Consultants Required? | Consultants will be required |

# I. STRATEGIC CONTEXT

## A. Country Context

1. **Economy**. Five years after the 2011 revolution, Tunisia has successfully completed its political transition, but tangible economic dividends in terms of greater prospects for economic opportunities and private sector-led jobs for the population are taking longer to materialize than expected. Following the revolution, Tunisia went through a political transition that led to the adoption of a new constitution in early 2014, followed by orderly presidential and parliamentary elections in late 2014. These achievements were due in large part to the role of the country's robust civil society (acknowledged by the Nobel Peace Prize). Civil society organizations (CSOs), including youth groups, have gained more voice and have pushed for greater transparency and accountability in public service and for the elimination of corruption. However, because of delays in reform implementation, and security-related incidents, social unrest, and regional instability (including in neighboring Libya), economic growth has averaged only 1.4 percent post-revolution (compared to 4.4 percent during the five years before the revolution); the gross investment rate averaged 22.5 percent of gross domestic product (GDP) (compared to 24.6 percent); exports growth averaged 2.2 percent per annum (compared to 5.1 percent); and unemployment averaged 16.2 percent (compared to 12.7 percent).

2. **This weak economic performance poses a risk to the poverty reduction gains of the past, and to the promotion of greater inclusion especially for the middle class--indicating the still fragile social situation in Tunisia's young democracy.** While poverty incidence was halved between 2000 and 2014 (from 32.5 to 15.5 percent), considerable disparities still exist, and household vulnerability remains considerable, especially in the face of the weak post-revolution economic performance. These disparities have persisted or even widened. Inequality between regions has also risen, with poverty increasingly concentrated in a few regions of the country. Just as importantly, the data suggest that many households (including some categorized as middle class) remain only slightly above the poverty threshold, making them vulnerable to exogenous shocks such as the loss of employment, or hikes in the prices of essential goods. Also, growth has been inadequate to generate enough jobs to absorb new entrants into the labor market. As a consequence, the unemployment rate has remained high (15.4 percent overall in 2015). It is even higher among women (22.6 percent), young university graduates (31 percent), and the population of the interior regions (26.2 percent in the Southeast, 23.1 percent in the Southwest, and 19 percent in the Center-West regions, compared to 10.7 percent and 9.9 percent in the Northeast and Center-East regions). Demographic trends suggest that unless the pace of growth accelerates substantially, unemployment will worsen over the next decade. Several large protests in early 2016 were reminders that tackling unemployment, especially among youth, and in the interior regions where the 2011 revolution started, is critical for political and social stability.

3. **Lagging Regions.** Economic development in Tunisia has been characterized by significant regional imbalances, with coastal regions developing most quickly, and hinterland regions lagging behind. In 2010, poverty rates ranged from a low rate of 8-9 percent in the Center East region and Grand Tunis, to a high of 26 and 32 percent in the Northwest (NW) and Center-West (CW) regions, respectively. These two regions are home to about 47 percent of the nation's poor (19 percent in the NW, and 28 percent in the CW). They have the lowest regional

development indicators in education, employment, and health, and the highest unemployment rates for university graduates (see Table 1).

4. **Agriculture (crops, forestry, and livestock) dominates the economic life in the NW and CW regions.** Agriculture provides the bulk of employment and income opportunities in these two regions. However, income levels remain low. Well-paying jobs and other income opportunities are limited, poverty levels are high, and overall economic prospects are threatened by unsustainable agricultural and natural resource management practices, as well as by climate change. Unequal opportunities that are in part caused and sustained by favoritism and elite capture by certain powerful groups, translates into wide disparities in terms of socioeconomic achievements. Three broad constraints hamper the sustainable development of Tunisia's lagging regions in general, and the Northwest and Center-West regions in particular:

- Fragmented and centralized administrative approaches to local development that lack effectiveness and efficiency;
- Limited infrastructure and public services (e.g. transportation, education, health, water supply, and sanitation);
- Limited[1] availability of common services such as logistics, business intelligence services, research and development, and financial services;
- National agricultural and forestry policies that do not foster the sustainable development of agriculture.

**5.** The proposed project focuses on the Northwest and Center-West agricultural ecosystems[2] because of their importance in the economic development of lagging regions, as well as their potential positive impact on their human development indicators (HDIs). This is in line with the commitment made in the CPF to focus World Bank Group activities in a select number of the lagging regions in order to show tangible impact within a reasonable period of time. This project seeks to address elite capture and contribute to the economic inclusion of the bottom 40 percent by: (1) creating economic opportunities in the lagging regions where the poorest populations are concentrated; and (2) introducing mechanisms to reduce elite capture and ensure the flow of benefits to the typically marginalized and poorer groups. In the agricultural sector, "elite capture" manifests itself in various ways: some groups have privileged access to agricultural inputs; other groups have a stronger voice in local territorial planning compared to other groups, such as women or unemployed youth, who have less say in how landscapes are managed; and top-down approaches limit broad-based and inclusive participation in local planning. To mitigate some of these capture risks, investment in support for job creation and local development will be identified, using analytically underpinned and inclusive participatory processes. This will inform pro-poor local development plans, related policy reforms, and private sector development activities.

[1] The key elites who tend to benefit disproportionately from resources in the agriculture production and service delivery chain can be located at three levels: (1) the national level; (2) the governorate level; and (3) the local level. These elites include representatives linked to political parties, the civil service, unions, and other powerful social and economic elites.

[2] Agricultural ecosystems or resources, as used in this document, include forests, rangelands, and agricultural resources.

**Table 1. Selected Indicators in the Lagging Regions of Tunisia** **(Lagging Regions Task Force: 2016)**

| Indicator | National | NW | CW | SW | SE |
|---|---|---|---|---|---|
| **Regional Development Index** | n.a. | 36.5 | 23 | 47.3 | 52.7 |
| **Migration flux (000)** | n.a. | -34.8 | -39.5 | -5.8 | -0.2 |
| **Poverty rate** | 15.2% | | 28.4% | 30.8% | 17.6% |
| **Illiteracy rate** | 18.8% | 30% | 31.5% | 15.4% | 16.9% |
| **Consumption/habitant** | 2360 TD | 1613 TD | 1491 TD | 1853 TD | 2198 TD |
| **Improved access to quality water** | 83.9% | 63.5% | 83.3% | 95.6% | 99.5% |
| **Unemployment rate (urban)** | 14.6% | 18.2 | 14.6 | 22.4% | 13.1% |
| **Child malnutrition** | 10.1% | 14.5% | - | 14.3% | 6.9% |
| **Agricultural employment (% of total)** | 21.6% | 45.4% | 43.3% | 28.5% | 13.8% |

## B. Sectoral and Institutional Context

### Sectoral Context

6. **Agricultural landscapes.** The Northwest and Center-West regions' agricultural landscapes are mixed systems that combine crop agriculture, agroforestry, forests, tree plantations, and rangelands, interlinked with grazing cattle, sheep, and goats. Small, mostly rain-fed farms of less than 10 hectares dominate the agricultural landscape across the Northwest and Center-West regions, except in the governorates of Kef and Siliana, where larger farms (above 10 hectares) are more prevalent (see Table 2).

7. **Households in the Northwest and Center-West regions are highly dependent on natural resources.** Subsistence farming, nonfarm employment, forests, and rangelands contribute significantly to the welfare of rural Tunisians in general, and those of the NW and CW regions in particular. Forests and rangelands generate an estimated economic value of US$500 million per year nationally, equivalent to about 14 percent of agricultural GDP in 2012. While forests and rangelands are significant to the livelihoods of rural households in and around forests and rangelands, the bulk of the economic value generated by forests and rangelands does not accrue to these households. About 55 percent of the economic value accrues to others, through environmental benefits such as the reduction of reservoir sedimentation, water retention and regulation, and protection against desertification, at the national level. In a water-stressed country like Tunisia, these services are particularly important for other sectors, such as irrigated agriculture, drinking water, and maintaining the groundwater table. Another 12 percent are global benefits, such as carbon sequestration and biodiversity.[3] The market value of fodder and non-wood forest products harvested in the area, which actually accrue to the local communities, account for only 33 percent of the estimated economic value. Nonetheless, forests and rangelands provide about 38 percent of household income for people living in and around forests and rangelands, and about 5-7 million working days per year, equivalent to about 35,000

[3] World Bank & General Directorate of Forests (DGF) (2015). *Toward sustainable management of forest and rangeland ecosystems in Tunisia: Analysis of benefits and costs of the degradation of forests and rangelands*.

permanent jobs. Livestock farming and crop agriculture provide the bulk of the remaining share of the income of rural households living in these two regions.

8. **Women dominate the rural labor force, yet remain vulnerable.** Women represent 58 percent of the rural labor force in Tunisia, and up to 80 percent in the NW and CW regions. Women have always actively participated in agriculture, working both on the farm and in the production system, in livestock, tree cultivation, vegetable crops, handicrafts, and in the processing and storage of agricultural products for household use and for the market. While they play a key role in agricultural and rural development, women remain quite vulnerable: many of them are heads of families; about 80 percent work informally; and they have very limited, or no access, to credit. These constraints further limit their access to economic opportunities.

9. **Key agricultural policies show biases against lagging regions**. Food security and securing the livelihoods of farmers are the primary agricultural policy objectives of the government. These policy objectives are supported by a complex system of subsidies focusing mainly on commodity price support and production assistance that represent a significant budgetary burden for the Ministry of Agriculture. These policies, however, tend to repress the growth of lagging regions by stimulating the production of commodities (e.g. cereals, beef, and milk) for which these lagging regions, and Tunisia more generally, enjoy limited comparative advantages. This undermines the development of more diversified, labor intensive, higher-value products for which the interior regions are more competitive.

10. **Some agricultural policies also discourage the sustainable management of landscapes**. When combined with farmers' practices to secure land use rights, these agricultural policies also play a significant role in the degradation of the lagging regions' landscapes by encouraging excessive cultivation of marginal lands, which are prone to soil erosion and desertification, directly adding to the pressure on forests from livestock. The allocation of rangelands to the private sector, combined with state aid for planting olive trees, encourage land clearing and conversion to olive plantations, with potentially large costs of environmental degradation; today, in the absence of an integrated landscape management (ILM) approach, these costs are being ignored.

11. **This project will not address agricultural support policies because its primary focus is on economic development of landscapes in the lagging regions.** Because of the evolving nature of the agricultural and fishery strategy that is currently envisioned by the Ministry of Agriculture, Water Resources, and Fisheries (MARHP), project activities will be an integral part of the overall dialogue with MARHP. The project will, however, focus on issues related to the regulatory and institutional frameworks for the co-management of agricultural resources.

12. **Top-down sectoral approaches and policies reduce access to and management of forest and rangeland resources by local populations and local entrepreneurs**, depressing local income and employment opportunities, and providing little or no incentives for their sustainable exploitation. Some policies, such as the Tunisian Forestry Code, discriminate directly against lagging regions by inhibiting forest and rangeland development and discouraging sustainable co-management with the local population. Under the Forestry Code, the state owns and manages about 94 percent of the country's forests, and provides local people with restricted-use rights limited to the satisfaction of family subsistence needs, and gives them no management responsibilities. Finally, professional associations, which are more or less linked to traditional sociopolitical institutions--Agricultural Development Groups (GDAs), Mutual Society for

Agricultural Services (SMSAs), etc.--and are based on local social capital, are not sufficiently involved in the decision-making process and the management of these resources. However, with appropriate reforms, these groups could play a more important role.

**Table 2: Farm Size in Northwest and Center-West Governorates**

| REGION | Farms by size (%) | | | | Number of farmers (*) |
|---|---|---|---|---|---|
| | 0-5 ha | 5-10 ha | 10-50 ha | >50 ha | |
| **North-West Region** | | | | | |
| Beja | 57% | 21% | 19% | 4% | 21,200 |
| Jendouba | 61% | 25% | 13% | 1% | 24,512 |
| Kef | 34% | 24% | 32% | 10% | 18,112 |
| Siliana | 44% | 20% | 30% | 6% | 23,140 |
| **Center-West Region** | | | | | |
| Kairouan | 42% | 28% | 28% | 2% | 42,045 |
| Kasserine | 37% | 27% | 33% | 3% | 34,860 |
| Sidi Bouzid | 40% | 26% | 33% | 3% | 39,400 |

*Source: Data calculations based on official statistics of Ministry of Agriculture, Water Resources, and Fisheries (MARHP), Diréction générale des Etudes et du Développement agricole, Statistiques 2014-2015*
*(*) All categories, including livestock keepers*

13. **Lack of access to finance is a serious constraint for farmers and for the private sector, particularly in rural lagging regions, where the bulk of agricultural activity takes place.** The portion of farmers benefitting from bank loans is estimated to be less than 7 percent. According to official statistics, banks finance about 11 percent of total agricultural investments, while 70 percent is financed by "own resources," including a significant amount of supplier and purchaser credit. The share of investments funded by credit was reduced by 50 percent between 2008 and 2012, and seasonal credit only covers 1/14th of agricultural input use.[4] The lack of formal financing in the sector, and in targeted regions, is due to the limited profitability of candidate projects, combined with risks that are perceived as high by the financial system, and other inherent weaknesses in the Tunisian financial sector, as well as inadequate preparation of financing records.

14. **Threatened agricultural landscapes.** The degradation of the mixed agricultural landscapes results from multiple factors. Natural factors include: climate (i.e. the Mediterranean climate with heavy showers and long dry periods), soils (i.e. soils subject to erosion), topography (i.e. steep slopes in the mountains) and climate change. These conditions are compounded by overgrazing and surface disturbing cultivation. Climate change – such as increase in temperature, reduced rainfalls, occurrence of extreme events – are likely to have adverse impacts on agricultural landscapes and on the Tunisian population who depend on them. It is estimated that climate change could reduce the income from agriculture by two to seven percent per year for a period of 30 years. Climate change will affect negatively the rural populations of central and southern Tunisia in particular, as well as the agricultural ecosystems in which they live. The cost of deforestation and forest degradation is estimated at US$14 million, or 23 Tunisian Dinars

[4] World Bank (2012): Tunisia Agricultural Finance Study

(TD)/ha per year, and the cost of rangeland degradation and clearing of natural forest is estimated at US$36 million per year.[5]

15. **Removing the above-described policy and market failures requires strategic public investment in the lagging regions.** This strategic public investment should: (i) find ways to help private entrepreneurs better understand market trends and specificities; (ii) support the creation of efficient organization of producer groups; and (iii) establish efficient links between producers, processors, and buyers.

***Measures to correct market failures***

16. **Increased productivity of agriculture, forest and rangelands and associated products will have a significant impact on economic growth.**[6] It is estimated that for forest and rangeland products alone, current market value could be raised almost five-fold, from US$16 million today, to a sustainable level of US$75 million, and could create around 25,000 jobs. Additional analytical studies[7] also suggest a significant scope for local actors to reorient their products towards higher value-added and growing global markets, with the development of adequate agricultural markets, and sustainable levels of production of key agricultural, forest, and rangeland products. This is especially the case within the context of continuous growth of the fair-trade, organic and ethical markets in developed and emerging economies, where produce from the targeted regions could develop competitive advantages.

17. **The theory of change of this project** is that the current regulations, which constrain access to the existing natural resources, and the lack of adequate government services and infrastructure, combined with remoteness, coordination failures, and poor access to markets and credit, constitute key longstanding constraints to private investment and entrepreneurship, thus inhibiting sustainable growth of the Northwest and Center-West regions. This project seeks to address some of these constraints by supporting the intensification of localized sustainable production, and improving market access for the beneficiary group (i.e. the bottom 40 percent), while reducing pressure on the overall fragile landscape of these lagging regions. Through improved landscape management in targeted regions, the project aims to shift the incentives towards a win-win situation by improving incomes for beneficiaries, while simultaneously regenerating agricultural, forested, and pastoral areas of the country.

18. Forests and rangelands also have high potential for addressing rural economic diversification and employment creation needs through the promotion of ecotourism customized to their specific characteristics, fragility, and the diversity of their natural, human, and cultural resources.

## Institutional Context

19. **Strategic directions.** In Tunisia, key overall strategic directions are provided by the *New Five-year Development Plan (2016-2020)*[8], which aims to maintain social peace, especially in

[5] World Bank (2014) Turn Down the Heat: Confronting the New Climate Normal (World Bank, Washington)
[6] World Bank 2016: Forestry project preparation studies
[7] Being conducted within the Value Chain Development for Better Jobs in Lagging Regions TA (P157321), as part of a capacity building program for 27 Tunisian civil servants from agencies and administrations potentially involved in the implementation of the operation.
[8] Also known as "the plan".

the lagging regions by highlighting the need for a "positive discrimination between regions," and stressing the importance of a new development model based on efficiency, equity, and sustainability (see Box 1). This plan lays the foundation for the implementation of an ILM approach that recognizes the interdependence between agriculture, forestry, and natural resources (particularly, soil and water); that engages all key actors (public, private, and people) in strong partnerships; and that seeks to increase rural household incomes while strengthening the resilience and sustainability of these natural resources.

**Box 1: Tunisia's New Five-Year Development Plan (2016-2020)**

The Tunisia *New Five-Year Development Plan (2016-2020)* predicts an ambitious growth rate of 5 percent in the next five years, against the 1.5 percent achieved between 2011 and 2015. The plan focuses on four pillars:

- *The transition from a low-cost economy to economic hub* by seeking to establish a more diverse economic base with high employment content;
- *To ensure human development and social inclusion* by improving the quality of the educational system, to boost employability;
- *Realization of the ambitions of regions*. This pillar aims to reduce disparities between the less developed inland areas and coastal regions by an average of 30 percent at the level of the Regional Development Index. The approach involves "improving infrastructure, promoting the development of regions and increasing their attractiveness, developing a regional financing system, improving living conditions of the inhabitants, developing decentralization, and laying the foundations of local governance."
- *Implementation of the pillars of sustainable development*, which provides for balanced regional development, to integrate all regions, while respecting the environment. Its realization depends on a rational use of natural resources, better environmental protection, and greater control of energy consumption.

20. Other strategic notes have been elaborated in line with the Tunisian Constitution which explicitly addresses the need to safeguard a healthy environment and to ensure the sustainability of natural resources for future generations:

- The *Orientation Note for Regional Development* envisions an alternative model of development that relies on territorial planning, the sustainable management of natural resources, and support for a Green economy, as well as a paradigm shift in governance from a top-down to a bottom-up approach, and a participatory development model involving all stakeholders.
- A new thinking on *Green Policy*[9] focuses on synergies and trade-offs between the environmental and economic pillars of sustainable development, in which economic outputs are directly increased by improved environmental conditions, and will be conducive to economic growth.

[9] National Strategy for a Green Economy in Tunisia (2016).

- The MARHP vision to significantly increase extensive olive tree planting. Today, Tunisia is the leading producer and exporter of olive oil in the southern Mediterranean, after the European Union (EU). Tunisia's ambition is to expand production by planting about 10 million olive trees in three years (see Box 2).

21. **Decentralization.** As called for by the 2015 Constitution, the government has expressed its intention to decentralize resources, functions, and responsibilities by empowering local governments. This objective is also stressed in the *New Five-Year Development Plan*. The Ministry of Environment and Local Affairs is leading the design and implementation of the decentralization process by supporting the development of national government policy on decentralization – both fiscal and functional--and by supporting local governments in the management of local affairs, and the preparation and execution of development plans, programs, and projects in collaboration with concerned ministries and institutions.[10] The first step in this process is to ensure that 100 percent of the population is covered within a municipal administration. The process of the creation of new rural/urban municipalities started in March 2014[11]. The functional responsibilities foreseen by the new community code will be transferred gradually to the municipalities in three-year increments, depending upon their progress in supervision and financial autonomy, following a strategic plan spread over nine years. So far, the decentralization of natural resource management is not covered by this process, and will remain the responsibility of MARHP. The World Bank is providing support for municipal strengthening under the Urban Development and Local Governance Program for Results.

**Box 2: Olive Oil Production in Tunisia**

Olive oil, one of the country's key agricultural commodities that is largely oriented towards export, is a strategic product in Tunisia. According to the National Office of Oils (Office National d'Huile (ONH)), the average annual production of Tunisian olive oil over the last 10 years (from 2006-16) amounts to 176,000 tons, with a minimum of 70,000 tons and a maximum of 340,000 tons respectively during the 2013-14 and 2014-15 production seasons. This level of production makes Tunisia second in the world, after the European Union (EU). No effective efforts have been made to develop exports and promote higher value-added products, and the overall level of primary olive oil production, compared to its potential, has been lagging.

The average productivity of olive trees in Tunisia, compared to its potential, has been fluctuating and declining in recent years (yields have decreased by 0.4 percent per year on average since 1990). It should be noted, however, that in Tunisia, olive trees, rather other non-fruit-bearing varieties of trees, are not only planted for production, but often as a means of reducing land erosion gully control. Obviously this negatively affects olive productivity per hectare. In terms of yield per hectare, Tunisia ranks last among nine producer countries in the EU, and in the Middle East and North Africa (MENA) region. Yields in northern Tunisia can be compared to average yields in Morocco: however, those of the Central region are only half of those of its international competitors, while yields of the Southern region are more than four times less.

[10] The government is redefining the local government tier, along with their functional responsibilities and fiscal transfer mechanisms. Municipal elections are expected to take place in March 2017.
[11] This process does not affect the current limits of the governorates and delegations.

The main problems affecting yields are: (i) weak infrastructure and lack of irrigation (irrigated areas represent only 3.5 percent of the Tunisian olive-growing area, and lack of water is an obstacle to the expansion of irrigated schemes); (ii) a high percentage of poorly maintained olive trees and poor agronomic practices, as well as low planting density and age of olive trees (The National Office of Oils (ONH) estimated that 54 percent of olive trees are 20-70 years old, while 15 percent are more than 70 years old); (iii) a low level of mechanization, especially for harvesting; (iv) limited phytosanitary protection, lack of know-how, and lack of post-harvest investments.

It should also be pointed out that since the revolution of 2011, the rural labor force has become scarce, and the cost of this production factor has increased, eroding one of the key comparative advantages of Tunisian agriculture compared to other major olive oil-producing countries.

22. **Institutional setting.** MARHP intervenes in five key areas: (i) agriculture; (ii) fisheries and aquaculture; (iii) livestock; (iv) water resources; and (v) natural resources (forests and rangelands). There is a high level of institutional fragmentation,[12] which complicates the coordination and coherence of development strategies and programs. The Ministry has initiated a review of its sectoral strategies, which will include the following:

- The ongoing development of a *Strategy of Agricultural Sector and Fisheries* by the year 2020 will help implement the first building block of a comprehensive strategy for MARHP.
- The forthcoming *Strategy for Water and Soil Conservation* (WSC), considered a key element of territorial management, will incorporate a new technical and organizational vision for the management and conservation of agricultural lands and the improvement of local organizational capacities.
- The new National Strategy for the Sustainable Development and Management of Forests and Rangelands (2015-2024) aims to reconcile the conservation of forests and rangelands with socioeconomic development by promoting the involvement of community-based organizations (CBOs) and private owners in the co-management of forests and rangelands.

23. The Budget Management by Objectives (BMO), established in MARHP since 2004, provides the basis for improved coordination among the many directorates and institutions, by grouping its budget in six programs[13] and seventeen subprograms.

24. In October 2016 the Minister of Agriculture, Water Resources, and Fisheries announced to the Chamber of Deputies, that MARHP would proceed with the necessary restructuring of the Ministry. The first phase will focus on the likely merging of the institutions governing forests and rangelands (the General Directorate of Forests (DGF); the *Régie des exploitations* (Forest Harvesting Administration);[14] and the Authority for Forest and Pastoral Development of the Northwest (ODESYPANO).

[12] 27 different institutions (including agencies, authorities, centers, observatories, etc.) and 10 general directorates cover the five different sectors
[13] Program 1: Agricultural production and quality; Program 2: Fisheries; Program 3: Water; Program 4: Forestry, and Planning and Conservation of Agricultural Lands; Program 5: Research; and Program 6: Support Services.
[14] The government institution in the Ministry of Agriculture that sells forest products.

25. The MARHP is represented in each governorate through the Regional Agricultural Development Commission (CRDA), which translates MARHP national policies and programs at the regional level. CRDAs are financially autonomous entities who report to MARHP, and whose main responsibilities are to supervise the implementation of legislative provisions and regulations concerning the protection and the development of agricultural lands, forests, fisheries and water; contribute to the protection of the environment; implement actions relating to the progress of agricultural campaigns on supply, processing, and marketing; and encourage farmers to set up adequate structures to help promote the sector.

26. Multiple publicly-sponsored private sector development agencies are involved in the execution of the objectives of the five-year plan. This includes national agencies with relevant technical expertise, such as the Agency for the Promotion of Agricultural Investments (APIA), the *Agency for the Promotion of Industry and Innovations* (APII), and the Exports Promotion Center (CEPEX), as well as regional development agencies like the Authority for the Development of the Northwest (ODNO), and the Authority for the Development of the Center-West (ODCO). Fragmentation and lack of coordination between these agencies presents significant barriers to promoting entrepreneurship and economic opportunities.

27. **Cooperative Sector**. The cooperative sector in Tunisia is comprised of a range of professional agricultural organizations and groups: (i) about 151 mutual societies for agricultural services (SMSAs); (ii) 3,000 agricultural development groups (GDAs) involved in the provision of drinking water and management of water for irrigation; (iii) seven interprofessional associations; (iv) around 270 companies for enhancement and agricultural development (SMVDA); and the Tunisian Union of Agriculture and Fisheries. These "producer organizations" (POs) are relatively weak in terms of management, apart from a dozen older POs that produce wine. The majority of primary POs are engaged in the collection and storage of cereal crops and milk, and most of them offer a multitude of services (input supply, collection of commodities, storage, transportation, and payment of subsidies). All of these organizations are under strong tutelage by various government agencies, leaving them little room to operate like independent businesses for the benefit of their members. The patronage of government is enshrined in law and reflected in statutes that inherently discharge members and management from responsibility for ensuring financial sustainability, and building up the capital and investments needed for modernization, in order to provide competitive services. Consequently, POs are undercapitalized, offer only rudimentary services, operate in business sectors with narrow profits, have limited or no access to credit, and suffer from low member participation. With their mixed status between the private and public sectors, they all too often are functioning as an extension of government agencies rather than truly representative business organizations seeking to maximize income for their members. While this situation often makes them suboptimal partners for business ventures, they are also often the only service provider available: it is expected that linking them to larger commercial entities will encourage more engagement by both members and management.

## C. Higher Level Objectives to which the Project Contributes

28. **The proposed project is aligned with the World Bank Group's Tunisia Country Partnership Framework (CPF)** for the period FY 2016-2020 (Report 104123-TN), discussed by the World Bank Group Board of Executive Directors on May 17, 2016. The project is in line with the commitment made in the CPF to focus World Bank group activities in a select number

of the lagging regions in order to show tangible impact within a reasonable period of time. The CPF consists of three pillars: (i) restoring an environment conducive to sustainable economic growth and private sector-led job creation; (ii) reducing regional disparities; and (iii) promoting increased social inclusion. The proposed project contributes to all three pillars by: (i) improving the national regulatory environment in the agroforestry sector (CPF pillar one); (ii) contributing to job creation in targeted lagging regions through bottom-up, participatory local development in landscape areas (CPF pillar 2); and (iii) contributing to economic inclusion of youth and marginalized groups by creating economic opportunities in landscapes where the poorest populations in the lagging regions (i.e. the bottom 40 percent) are concentrated (CPF pillar 3).

29. **This project contributes to the World Bank Group's strategic goals of ending extreme poverty and boosting shared prosperity in a sustainable manner, and seeks to foster inclusion and shared prosperity in Tunisia's lagging regions.** It is also in line with the MENA Regional Strategy, which aims to promote economic and social inclusion for peace and social stability. The proposed project contributes to the implementation of the MENA Strategy, specifically, its pillar on renewal of the social contract by promoting a new, bottom-up development model; more effective and responsive public services that focus on the poor and vulnerable (i.e. the bottom 40 percent); and private sector development to create jobs and opportunities for youth and other important stakeholder groups in lagging regions. It also contributes to the MENA Strategy by creating strategic synergies with external partners (such as the French Development Agency (AFD); the International Fund for Agricultural Development (IFAD); the African Development Bank, the Japan International Cooperation Agency, the United Nations Development Program (UNDP); and the Food and Agriculture Organization of the United Nations (FAO), in order to enhance coordination and impact on the ground.

30. **The proposed project will also contribute to the implementation of the World Bank Forest Action Plan FY2016-20 (April 2016)**. Project activities are in line with the Forest Action Plan Focus Area 1 on Sustainable Forestry, through investments focused on optimizing the potential of forests to provide cash and noncash income, and to generate jobs and economic opportunities for Tunisian forest-dependent people. The project also contributes to the Forest Action Plan Focus Area 2 by supporting forest-smart interventions in other economic sectors, mainly agriculture, in order to improve the productivity and resilience of agricultural crops surrounding selected forests and rangelands. Through its activities, which include concrete mitigation and adaptation actions, the project also supports implementation of the World Bank Group Climate Change Action Plan.

31. The project will support the implementation of the ***World Bank Agricultural Strategy,*** which consists of four pillars: (i) improving food supply and nutrition; (ii) providing livelihood and income in rural areas; (iii) providing economic growth and environmental sustainability; and (iv) affecting climate change.

32. **The project will also implement the December 20, 2016 inter-ministerial decision that aims to ensure a joint approach to value-chain development activities in targeted lagging regions**. This meeting was led by the Minister of Investment, Development, and International Cooperation, with the participation of the Minister of Agriculture, Water Resources, and Fisheries; the Secretary of State of Agricultural Production; the representative of the Minister of Trade and Industry; and the Minister of Vocational Training and Employment. The decision concerns four International Bank for Reconstruction and Development (IBRD) operations: the *Integrated Landscapes Development in Lagging Regions Project* (P151030); the

*Productive Inclusion Opportunities for Young Women and Men Project* (P158138); *the Irrigated Agriculture Intensification Project* (P160245), and the ongoing *Tunisia Third Export Development Project (P132381).* The decision consisted of establishing a common value-chain development platform among various development agencies (private sector and/or regional), in order to ensure synergy and coordination across the projects, and among the concerned agencies, in support of private sector development at the local level. This platform would be in charge of conducting the technical part of the value-chain development activities foreseen in all four projects, and ensuring coordination among them so that the investments foreseen remain complementary in supporting the development of the various value chains targeted throughout the targeted regions. The meeting also confirmed the need to include the entire Northwest and Center West regions of Tunisia as core common geographic areas of intervention for all projects (see Annex 7 for details).

## II. PROJECT DEVELOPMENT OBJECTIVES

### A. Project Development Objective (PDO)

33. The project development objective (PDO) is to ***improve landscape management and access to economic opportunities for targeted rural communities in the North West and Center West regions of Tunisia***.

34. The concept of ILM refers to long-term partnership among various stakeholders in order to achieve multiple landscape-related objectives in a given landscape. The following elements are underlying this concept: (i) shared or agreed management objectives that encompass multiple benefits from the landscape (i.e. goods and services needed); (ii) agricultural practices designed to contribute to multiple social, economic, and environmental objectives (including human well-being, food production, climate change mitigation, and conservation of biodiversity and ecosystem services); (iii) ecological, social, and economic interactions among different parts of the landscape to realize positive synergies among interests and actors, or to mitigate negative trade-offs; (iv) participatory, community-engaged processes for dialogue, planning, negotiating, and monitoring decisions; and (v) markets and public policies to achieve diverse landscape objectives and institutional requirements.

35. The concept of ***economic opportunities*** mainly focuses on the role of markets to generate cash income and employment opportunities for the bottom 40 percent in a more equitable and sustainable manner.

### Project Beneficiaries

36. **The direct beneficiaries of this project are the rural communities of the Northwest and Center-West regional governorates**,[15] and the northwestern part of Bizerte governorate (delegation of Sejenane).[16] They will benefit from a range of capacity-building initiatives and investments that aim to improve their livelihoods. Direct beneficiaries include the local communities that will co-manage forest and rangeland resources in targeted landscapes, and will

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[15] Beja; Jendouba; Kef; Siliana; Kairouan; Kasserine; and Sidi Bouzid

[16] Although administratively it is not part of the NW and CW regions, Bizerte has been included because of the similarities of its ecosystem.

benefit economically from the increased value-added of products as a result of project interventions. These communities represent a population of about 250,000 rural households (about 1.5 million people). Women constitute 51 percent of these direct beneficiaries, and youth (age 15-35) are about 33 percent (i.e., about 500,000 people). Direct beneficiaries are expected to include producers; micro, small, and medium enterprises (MSMEs); producer organizations (POs); and workers in the agricultural sectors of targeted regions.

37. **A number of institutions will also indirectly benefit from the project**. At the national level,_key MARHP directorates and agencies, particularly the General Directorate of Funding Investments (DGFIOP), the General Directorate of Forests (DGF), the General Directorate for Legal Affairs and Land Use (DAJF), the General Directorate of Organic Farming (DGAB), the General Directorate of Agricultural Production (DGPA), the General Directorate of Agrofood Industry (DGIA), the Exports Promotion Centre (CEPEX), the Agency for the Promotion of Industry and Innovations (APII), the Agency for the Promotion of Agricultural Investments (APIA), and their counterparts in relevant sectoral ministries will benefit. At the regional level, the eight CRDAs involved in the implementation of the project, and various regional line departments, as well as ODNO and ODCO, will benefit.

### PDO Level Results Indicators

38. The proposed PDO indicators are:

- Land area under sustainable landscape management practices[17] (hectares);
- Farmers associations and MSMEs in selected agricultural products with improved access to key buyers (and/or markets) (number);
- Target beneficiaries in lagging regions with rating 'Satisfied' or above on project interventions (disaggregated by sex, age: 15-35) (percentage).

## III. PROJECT DESCRIPTION

### A. Project Components

39. In line with the Tunisian Constitution, which calls for decentralization and participatory management of natural resources at the local level, this project seeks to promote the integrated landscape development approach in order to spur economic activity (livelihoods, employment, and gender-related); improve agricultural productivity; foster biodiversity; contribute to climate change mitigation and adaptation; and improve water availability and quality. The project will address constraints to sustainable supply, production, demand, or market access, through:

- Promoting participatory, bottom-up integrated landscape development planning;
- Identifying production opportunities for increasing local economic activity and engaging man power, as well well increasing the income levels of poor households;
- Promoting better access to existing, and new, higher value-added markets.

[17] See CP2.1 for examples of SLM practices that will be adopted under the project

40. **The project will have three main components: *(i) laying the foundations for sustainable management of agricultural resources; (ii) fostering sustainable regional investments; (iii) project management, monitoring, and evaluation.*** The project approach will encourage women and youth participation and involvement in all project activities.

**Component 1. Laying the foundations for sustainable management of agricultural resources (US$14 million)**

41. This component will provide support for initiatives aimed at: (i) improving agricultural, forest, and rangeland data, and information quality and accuracy at the national level; (ii) adopting integrated landscape development planning; (iii) strengthening the technical and managerial capacities of various national, regional, and local stakeholders involved in the development of agricultural products; and (iv) strengthening relevant institutional and legal frameworks. This component will enhance stakeholder capacities for sustainable management of agricultural resources and information management, with capacity building and technical assistance provided through consulting services (including short-term consultants).

42. ***CP1.1. Information management and knowledge creation (US$8 million)*** This subcomponent will: (i) support the development of a *national information system for Forest, Rangeland and olive plantations*; and (ii) update or develop forest and rangeland co-management plans,[18] which are the main tools for legally managing these ecosystems. The information system will include the national forest and rangeland inventories; the national restoration (afforestation) plan; deforestation and soil maps; and biodiversity inventories, as well as a Measurement, Reporting and Verification (MRV) system. This subcomponent will be implemented by the DGF through direct contract with FAO.

43. ***CP1.2. Territorial Development Planning (US$3.5 million)*** In the NW and CW regions, this subcomponent will provide capacity building to local and national stakeholders to: (i) finalize the Integrated Landscape Development Plans (ILDPs) in the 10 selected priority landscape units (LUs); (ii) identify and develop ILDPs for new LUs in the NW and CW regions (approximately 15 new LUs); and (iii) embed the development of productive alliances (PAs) and value chains. This subcomponent will improve market access for small local agricultural producers through PAs and value-chain development activities. The proposed integrated landscape approach will incorporate a participatory, pro-poor process, and will be designed to prevent elite capture, and to increase access for vulnerable groups to the decision-making process concerning the key activities needed to increase economic opportunities in each landscape, within the context of the feasible set of community assets and economic potential. This includes: (i) introducing participatory methodologies that have been tested in a number of countries, to help ensure that all stakeholders have a voice in the planning process; (ii) introducing accountability mechanisms such as regular multi-stakeholder implementation monitoring, to

[18] For forests, rangeland, alfa grasses areas, and protected areas management, these plans are related to the "PV d'aménagement" as indicated in the forest code. These comanagement plans involve the local population and are the key tool for the effective management of forests and rangelands. They are not to be confused with ILDPs, which are more comprehensive integrated landscape development plans that span the management of all landscapes, including forests, rangelands, and agricultural landscapes.

ensure that the plans are implemented as agreed upon; and (iii) providing training and facilitation at the local level.

44. The ILDP enhancement process will also include the identification of additional activities that will help to: (i) formalize market-oriented producer groups and link them to national or international buyers through the PA approach; (ii) improve access and product orientation to higher value-added markets in targeted value chains by identifying the investments needed to decrease intermediation costs on local MSMEs (e.g. cold chain services, packaging and marketing services, etc.), and to improve their competitiveness. These activities could particularly support the development of: (i) aromatic and medicinal plants (AMP), mainly rosemary and myrtle; (ii) forest products for consumption (FPCs), such as Aleppo pine seeds (*Pinus halepensis*, locally called *zgougou*); pinion pine seeds (*Pinus pinea*); and various varieties of mushrooms; and (iii) local agricultural products such as olives, ovine meat, beef, cow's milk, apples, and peaches.

45. This subcomponent will be implemented by CRDAs and local development councils[19] (CDLs), and the proposed common value-chain development platform (as described in Annex 7).[20] Activities will be implemented through the provision of goods, consultant services, and the training of local, regional, and national stakeholders on topics related to participatory approaches, biodiversity protection, environmental governance, sustainable forest and rangeland management techniques; and territorial development, with support for the preparation of community-driven subprojects, to be implemented under Component 2. The project will also strengthen MSME capacities in the management and processing of agricultural products in targeted landscapes.

46. ***CP1.3. Strengthening institutional and legal frameworks (US$2.5 million)*** The activities under this subcomponent seek to support the government's vision of institutional reforms to strengthen the legal and institutional frameworks governing forest and rangeland resources. During the preparation phase, an evaluation of these frameworks identified key strengths and weaknesses, and suggested some recommendations and options to strengthen them. A working group was established by the government to evaluate the implications of each option, and to suggest the best options to be implemented. The subcomponent will be implemented by the General Directorate for Legal Affairs and Land Use (DGAJF), in close collaboration with other concerned institutions.

- *Strengthening the legal framework (US$0.5 million)*. Project activities will include technical assistance to: (i) analyze and propose key recommendations for strengthening the Forestry Code, which will, *inter alia*, lead to the provision of access to forests and rangelands by communities, and facilitate comanagement of these resources through clear

[19] CDLs are formally established bodies aimed at examining all questions related to the economic, social, cultural, and educational development in their territories (the delegation). The project will ensure that their composition includes CSOs and private-actor representatives. http://www.cnudst.rnrt.tn/jortsrc/1994/1994f/jo06094.pdf

[20] The proposed platform will be established under CEPEX through the Tunisia Third Export Development Project (EDP-3), and will provide its services (for a fee) to all parties and projects, including this one, that intend to leverage value-chain development activities. The platform represents a common effort by at least five private sector and regional development agencies (CEPEX, APII, APIA, ODNO, and ODCO) to put into place an integrated multidisciplinary team of specially trained value-chain development experts dedicated to this task. The platform is to be hosted by CEPEX for operational and logistical purposes. More details can be found in Annex 7.

conventions agreed upon between users and the government. (Complementary activities include support for reviewing legislation that will need to be harmonized, such as the water, soils, and land tenure codes.); and (ii) institutionalize and scale up the integrated landscape planning model.

- *Strengthening the MARHP institutional framework (US$1 million).* Specific activities, to be recommended by the working group, will be aimed at improving the organizational framework of MARHP by consolidating the DGF, the Forest Exploitation Management Unit, (*Régie d'exploitation forestière*) and the forest districts (*arrondissements forestiers*), which will be supervised by six regional directorates, to ensure better coordination, complementarity, consistency, and quality. A consulting firm will be hired by the Project Management Unit by Objectives (UGO) to support the implementation of proposed activities.
- *Promoting innovation through research and development (US$1 million).* Research and development (R&D) is the backbone of a globally competitive and knowledge-driven economy. This project will promote R&D activities, to help develop new products and services that drive growth, create jobs, and improve the welfare of lagging regions. Applied research on agricultural practices that enhance productivity and adaptation to climate change and the market demands of targeted products will be supported, in line with specific requirements of the ILDPs, PAs, and value-chain development activities.

**Component 2. Fostering sustainable regional investments (US$80 million)**

47. This component will support strategic investments (subprojects) that emerge from the ILDPs. These activities are exclusively related to forestry, olive tree plantations, agriculture and rangeland management (including livestock management), and small infrastructure projects. The project will support three categories of subprojects: (i) climate-smart and sustainable agriculture (e.g. soil fertility management techniques); (ii) complementary local infrastructure (e.g. feeder roads); and (iii) the development of agricultural products (e.g. aromatic plants). The activities of this component will be implemented by the CRDA/ *Regional Project Implementing Team* (RPIT) in close collaboration with CLDs, CSO and SMSA. The Project Operational Manual (POM) details the funding mechanisms, eligible investments, eligible subproject promoters, and evaluation and performance mechanisms. CDLs, as holders of ILDPs, with support from CRDAs, will coordinate the preparation, validation, and implementation of these subprojects through a participatory and consultative process, with all eligible stakeholders, including CSOs, GDAs, MSMEs, and SMSA.

48. ***CP2.1. Climate-smart and sustainable agricultural practices (US$56 million).*** In line with the integrated landscape approach adopted by the project, potential investments derived from ILDPs[21] will be built upon the principles of sustainable agriculture. They will result in integrated and coordinated planning and management, and decreased pressure on fragile lands, as well as increased agricultural production, income diversification, and food security.

[21] While the project will support the formulation of 25 ILDPs, based on the project's financial resources, it will finance the implementation of only 17 ILDPs.

49. ***Climate-smart agricultural management practices***. The project will support a variety of subprojects aimed at maintaining essential services provided by the ecosystems, including clean air, water, food, and materials, while contributing to sources of income for rural households. These subprojects will include: (i) olive tree planting in about 20,000 hectares, and 5,000 hectares of grafting oleaster; (ii) integrated soil fertility management techniques such as conservation tillage, and soil, water, and nutrient management; (iii) livestock husbandry and diversification; (iv) afforestation/reforestation activities; (v) rangeland seeding and natural regeneration; (vi) collection and cultivation of AMPs; (vii) the thinning and pruning of forests, combined with forest fire protection and biodiversity measures; and (viii) forest and rangeland certification activities.

50. Proposed investments are expected to have impacts (i*) at the local level*: reduction in on-farm costs through savings in time, labor, and mechanized machinery and increased soil fertility and retention of soil moisture; and *(ii) at the national level*, stabilization of soil and protection from soil erosion, leading to reduced downstream sedimentation; more regular river flows, and reduced flooding; and the replenishment of aquifers as a result of better infiltration). Reforestation activities carried out under the subcomponent associated with the adoption of climate-smart agriculture will have global benefits in terms of the reduction of $CO_2$ emissions (carbon sequestration), as well as the conservation of biodiversity, and will maintain essential services provided by the ecosystems.

51. ***CP2.2. Complementary local infrastructure investments (US$7 million).*** The proposed project will provide financing to upgrade key infrastructure that is not necessarily included in the ILMPs but that will improve the access of rural communities to economic opportunities and enhance their quality of life. This will include investments to mobilize and enhance water resources and to open up isolated territories through feeder roads, water crossings, small water reservoirs, small bridges, and culverts. To the extent possible, the local participatory process will facilitate the alignment and co-financing of complementary infrastructure with municipal and private sector development plans.

52. ***CP2.3. Fostering economic growth (US$17 million).*** Activities of this subcomponent aim to enhance access to economic opportunities and markets for intended beneficiaries mainly by (i) co-financing of investment in PAs, to support the formalization of producer organizations (POs), by bringing together small individual producers and farmers and helping them connect to bigger and better markets; and (ii) co-financing the activities and providing the common services (identified under CP.1.2) that are needed to strengthen and develop value chains that allow beneficiaries, particularly small farmers and MSMEs, to reach higher value-added markets,

53. More specifically, eligible activities will include: (i) the investments needed to expand production capacity and/or to improve quality in order to increase access to larger-volume and higher value-added markets; and (ii) investment to support POs in need of rationalizing the production process, ensuring quality control, processing, transporting and marketing products, and effectively addressing the valuation and marketing of products.

54. The eligible beneficiaries of this subcomponent are MSMEs and POs (CSOs, GDAs, SMSAs, and Shared Value Alliances (SVAs), which will be identified through a competitive process open to applicants using clear eligibility criteria, including the ability to create local jobs. The same beneficiaries will be in charge of implementing the investments selected during the participatory planning process for the ILDPs, identified under CP 1.2.

**Component 3. Project Management, Monitoring and Evaluation (US$ 6 million)**

55. This component will support the establishment and functioning of the Project Implementing Unit (UGO) and RPITs within the MARHP. Through the provision of goods, consultant services, and training, it will cover: (i) the equipment cost for the unit; (ii) project audits; and (iii) the incremental operating costs for the project. This component will support project management and monitoring and evaluation (M&E) activities. It includes the financing of goods, consultant services, training, and operating costs for the UGO at both the national and regional levels.

## B. Project Financing

56. The total project cost is US$132,340,000. The project is financed through an IBRD loan in amount of US$100,000,000 equivalent. The total amount of co-financing is US$32,340,000 and is available from the following sources: (i) government cash contributions estimated at US$18,340,000 (mainly related to project activity taxes and fees); (ii) government in-kind contributions estimated at US$4,000,000; and (iii) beneficiary cash contributions estimated at US$7,000,000, and in-kind contributions estimated at US$3,000,000.

57. The World Bank and MARHP have also engaged in deep dialogue with other technical and financial partners. The United Nations Development Program (UNDP) has been selected by the Ministry of Environment and Local Affairs as the executing agency to prepare a new Global Environment Facility (GEF) project on rangeland management. An agreement was reached with these partners to use the current project as a common program framework and use GEF6 STAR resources as a parallel financing mechanism for key project soft activities. The Forest Investment Program (FIP) of the Climate Investment Fund approved the Tunisia investment plan for the FIP in December 2016, and could support this project with a US$12 million grant if resources become available in July 2017 (see Table 3).

**Table 3: Project Cost and Financing**

| | IBRD | | Beneficiaries Cash | | Beneficiaries In Kind | | Government Cash | | Government In Kind | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| CP1 | 14 | 88.0 | - | - | | | 1,68 | 12.0 | - | - | 15,68 | 12.0 |
| CP2 | 80 | 78.4 | 7 | 7.1 | 3 | 3.2 | 12,66 | 11.3 | - | - | 102,66 | 77.2 |
| CP3 | 6 | 42.0 | - | - | - | - | 4 | 30.1 | 4 | 28.0 | 14 | 10.8 |
| Total Project Cost | 100 | 75.6 | 7 | 5.5 | 3 | 2.5 | 18,34 | 13.4 | 4 | 3.0 | 132,34 | 100.0 |

Amount in $US million

## C. Lessons Learned and Reflected in the Project Design

58. Building on past experiences, and drawing key lessons from them, ***the project will generate key transformational changes anchored in an integrated landscape management approach*** to improving the livelihoods of beneficiaries in the lagging regions.

59. ***Complementarities and synergies with other ongoing and proposed World Bank activities*.** This project is informed by several ongoing analytical activities and existing projects (see Annex 2), and has been designed in close coordination with other pipeline and ongoing operations.

60. The project will benefit from the ongoing *Urban Development and Local Governance Program for Results* (UDLGP) and align its planning process with the framework of the current decentralization program supported by the UDLGP. The proposed development policy operation (under preparation) focusing on improving business environment and entrepreneurship support will also help address the policy constraints that discriminate against lagging regions.

61. The project leverages strong synergies with three other World Bank-financed projects. The proposed Productive Inclusion Opportunities for Young Women and Men Project, and the Irrigated Agriculture Intensification Project focus on value-chain development (including agribusiness) in (mostly) the same lagging regions, but with a particular focus on job creation. The third project is the ongoing Tunisia Third Export Development Project (EDP-3) (P132381), which provides financial and technical services to exporting firms. To increase the efficiency and effectiveness of the support for job creation and economic growth in targeted lagging regions, and to implement the December 20, 2016 inter-ministerial decision, these four projects will leverage a common platform to implement activities aimed at supporting value-chain development, to be established within the EDP-3. The proposed platform is aimed at maximizing synergies: i) across the above-mentioned projects; and ii) between public agencies that support specialized MSME in order to address the currently fragmented support system, and to provide instead an integrated and coordinated value-chain development mechanism.[22] The Government sees this as an opportunity to use this common platform as a new way of doing business in Tunisia and inter-ministerial collaboration. [23]

62. There are also a number of lessons to be drawn from the implementation of the *Fourth Northwest Mountainous and Forested Areas Development Project* (PNO4), and the *Tunisia Second Natural Resources Management Project* (PGRN2):

- Both projects have gained a reputation for providing their beneficiaries with sound, holistic, and sustainable solutions for generating income and implementing essential community-based development projects. They have created synergies that have led to positive local outcomes with regional and local governments, nongovernmental sectors, and donors, as well as creating a general sense of positive change in lagging regions at a time of political and civil fragility in Tunisia. The project will build on these achievements and scale up the approach to LUs, to integrate all stakeholders in the same development vision. CDLs will take on this advocacy role to ensure that services are provided proactively.
- An additional lesson learned is that income-generating activities should be better prepared to reflect both demand and market alignment, and should be supported by training, coaching, and effective follow-up. Under this project the market-oriented PA and value chain (VC) approaches will help improve support to beneficiaries in line with

[22] The importance of strong coordination and synergy between these projects has been highlighted by a decision of the high-level ministerial meeting of December 20, 2016.
[23] On the Platform see Annex 7.

these lessons. The proposed value-chain development platform will also help to extend strategic market analysis and consulting services to project beneficiaries.

63. The proposed project will also draw important lessons from the strengths and weaknesses of other similar programs and projects operating in Tunisia and elsewhere in the MENA region, in the areas of community development, capacity building and integrated landscape management. The project will complement the proposed FY18 Productive Inclusion Opportunities for Young Women and Men Project, by specifically focusing on forests and rangelands in the lagging regions.

64. Finally, the International Fund for Agricultural Development (IFAD), the United Nations Development Program, and the French Development Agency (AFD) have agreed to use the same landscape approach in order to maximize complementarity of geographical targeted zones, and have set up a joint steering committee for these projects.

# IV. IMPLEMENTATION

## A. Institutional and Implementation Arrangements

65. The project implementing agency is MARHP, which will ensure fiduciary management and procurement for overall project activities. Within MARHP, the General Directorate of Funding Investments and Professional Organizations (DGFIOP) will host a UGO, which will be responsible for day-to-day project implementation, management, M&E, and coordination.

66. A National Steering Committee (COPIL) will facilitate overall effective implementation and ensure coherence of the project with other projects focusing on lagging regions, including other World Bank projects currently under preparation. At the governorate level, the Regional Council (RC) will facilitate the coordination, harmonization, and complementarity with other projects. At the local level, CDLs[24] will participate in the planning exercise to develop ILDPs, and subsequently, in cooperation with CRDAs, will ensure the coordination, elaboration, and monitoring of ILDP implementation through GDAs, SMSAs, and other stakeholders. The roles and responsibilities of the key implementing institutions are detailed below.

**At the National Level**

67. COPIL, chaired by the Minister of MARHP (or his designee), will be made up of various stakeholders, among them the Ministry of Development, Investment and International Cooperation (MDICI); the Ministry of Commerce and Industry; Ministry of Finance; and the Ministry of Local Affairs and Environment, as well as the presidents of the CDLs and RCs located in the selected regions, and representatives of the GDAs and SMSAs. COPIL will provide strategic guidance and oversight of the project, and will be assisted in this role by UGO, which will serve as the secretariat for COPIL. COPIL will endorse any updates to the Project Operations Manual (POM), as well as annual work plans and budgets, and annual and semiannual progress reports. COPIL will also facilitate the consistency of the project with sectoral policies and government programs, where necessary advocating for changes in such policies. COPIL will be expected to play an important role in facilitating the strengthening of the

[24] http://www.cnudst.rnrt.tn/jortsrc/1994/1994f/jo06094.pdf

legal and institutional framework, and promoting the changes to the laws and codes envisioned under Component 1.3. It will meet at least twice a year, and whenever deemed necessary by the Chair. The costs of its meetings, including travel costs for participants from the NW and CW regions, will be supported by the project (under Component 3).

68. ***Project Management Unit (UGO)***. UGO, hosted in the DGFIOP under MARHP, will be responsible for overall project management and coordination as well as the M&E of project activities in close coordination with the CRDAs, which will be delegated the regional-level coordination role. Specifically, UGO will: (i) carry out procurement procedures as needed at the national level; (ii) manage the project's special accounts; (iii) manage the M&E systems, including safeguards, at the national level; (iv) prepare consolidated annual work programs and budgets; (v) coordinate and consolidate procurement and financial management reporting; and (vi) coordinate and consolidate periodic progress reports for the project activities.

69. UGO will be established by the government before project effectiveness. It will compose of 10 qualified and dedicated staff seconded by the government, and selected on the basis of TORs agreed upon with the World Bank:

- There will be one director, who will coordinate overall project activities, and two departments, which will be led by deputy directors;
- The fiduciary department will consist of five full-time staff: a deputy director; a procurement specialist; a financial management specialist; a monitoring and evaluation specialist; and an environmental and social safeguards specialist;
- The technical department will consist of four full-time staff: a deputy director; a forest-pastoral specialist; a territorial development specialist; and a specialist in olive production.

70. UGO will supplement its capacity with qualified consultants hired by the project as needed.

**At the Regional Level**

71. ***The Regional Agricultural Development Commission (CRDAs).*** The CRDAs of MARHP are the key implementing institutions for project activities at the governorate level. The CRDAs of the eight targeted governorates[25] will host within their Department for Afforestation and Soil Protection (DRPS), a Regional Project Implementing Team (RPIT), which will prepare annual work programs and budgets, and submit them to UGO at the central level for approval. RPITs are responsible for implementing work programs and monitoring budgets, monitoring and evaluating project activities, and ensuring direct payments to regional service providers and entrepreneurs. They will closely coordinate their efforts with DRPS, which is responsible for landscape management and forestry at the CRDA level.

72. The Director General of CRDAs will hold periodic meetings with representatives of the forestry department and RPIT to: (i) review annual work plans and budgets, including results and

[25] The governorates of Beja, Jendouba, Kef, and Siliana in the Northwest Region; the governorates of Kairouan, Kasserine, and Sidi Bouzid, in the Center-West Region, and the governorate of Bizerte.

progress reports; (ii) evaluate progress achieved with respect to expected outcomes and specific objectives; and (iii) facilitate project execution by coordinating activities and mobilizing appropriate specialists and partners in developing and implementing ILDPs.

73. In each CRDA, the head of DRPS will coordinate the project related activities. The RPIT will be made up of qualified staff, i.e., Forestry specialist and an Agricultural production specialist, seconded by the CRDA on the basis of the TORs agreed upon with the World Bank. The project will also hire consultants in outreach and participation, procurement, financial management, M&E, and environmental and social safeguards, on an as-needed basis.

74. The ***RPIT*** will provide technical assistance and advice to beneficiaries in developing their ILDPs and annual programming, as well as in implementing the various project activities, including all procurement-related activities in the CRDAs, and in M&E. Other activities include (i) mobilizing all stakeholders; (ii) supporting the elaboration of ILDPs; (iii) developing annual programs; (iv) preparing and signing contracts with community, and with PO representatives; and (v) gathering essential data for the M&E of project-related activities and ILDP implementation.

75. The head of DRPS will coordinate project activities within each CRDA. He or she will be responsible for entering financial data, and for periodically sending all project documentation and implementation progress reports to UGO, following accepted information transmission procedures.

76. ***Regional Councils (RCs)***. In each governorate, the RC is a formal body responsible for harmonizing the contents and partnership arrangements proposed for the ILDPs. The RC reviews the ILDP, and facilitates the partnerships with other development institutions and stakeholders. It is headed by the governor, and is composed of the governor; elected representatives of the Chamber of Deputies; presidents of municipal and rural councils; unit chiefs of other administrative services; and representatives of technical, economic, social, cultural, and educational institutions. The RC meets four times a year for this purpose, and is responsible for mobilizing partnerships for the project, and for ensuring that the project's activities and programs are coherent with those of other local and regional partners.

### At the Local Level

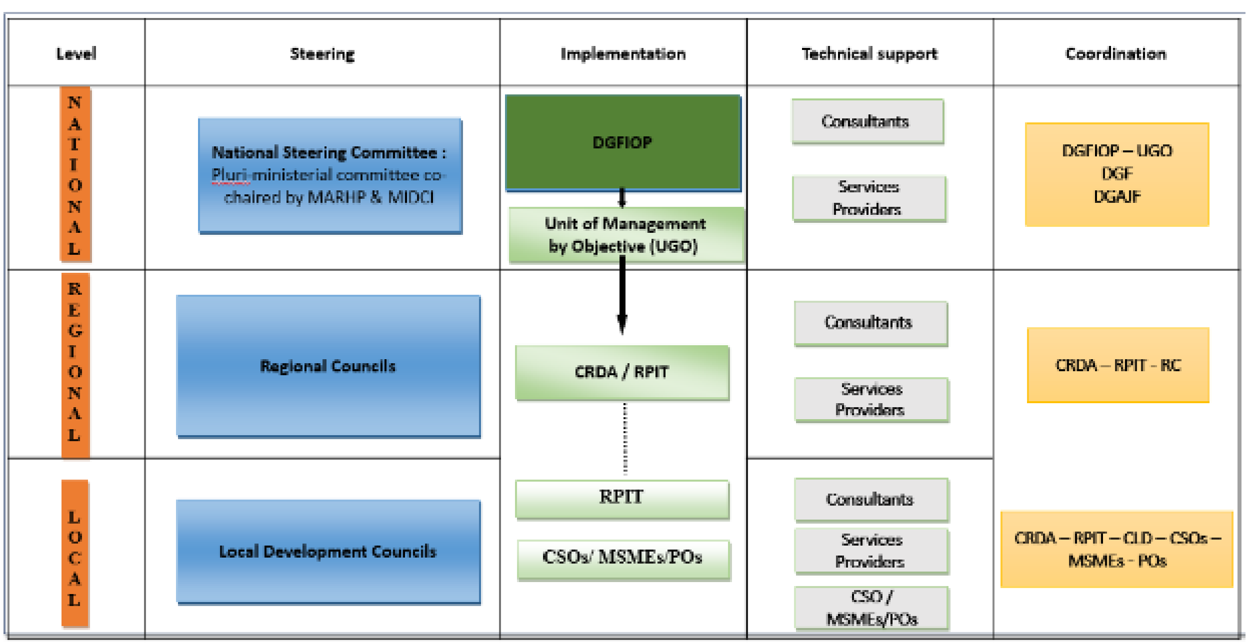
77. ***Local Development Councils (CDLs)*** are formal consultative bodies that review and discuss local economic and social development priorities, local development programs, and projects within their area of delegation. The CDLs: (i) mobilize partners and additional funding for the project at the local level; (ii) validate the ILDPs and subprojects that will be supported by the project, ensuring consistency with development priorities; and (iii) supervise and monitor the implementation of ILDPs. Reviews and discussions are held in working meetings with participants, including representatives of the local population, the private sector, the government, and nongovernmental partners affected by the project. The CDLs are headed by the Delegate (head of local administrative unit) and composed of: delegates nominated by the governor, presidents of communes, and councils of the delegation, administrative section chiefs, and representatives of regional technical services, including the CRDAs.

78. ***Civil Society Organizations (CSOs) and Agricultural Development Groups (GDAs)***. CSOs and GDAs are interest-group associations that play a key role in facilitating agricultural and diversification activity development, and in representing their communities within the

framework of the project. They will implement specific subprojects developed and approved under the ILDPs related to production systems, forest and rangeland co-management, and the fostering of agricultural and nonagricultural products. They will serve as the interface between the populations involved in the ILDP process and the RPITs in the CRDAs, and will be the institutional channel through which the RPITs initiate dialogue with local populations for the preparation and implementation of the ILDPs. When necessary, the project will support the creation of CSOs and GDAs in selected landscapes units, e.g. for the new LUs to be identified. GDAs and CSOs will be supported with training and logistical support to help them participate effectively in the preparation and implementation of the ILDPs.

79. ***Micro, small and medium enterprises (MSMEs),*** including Mutual Societies for Agricultural Services (SMSAs) will be supported in order to better process local products, reinforce marketing and commercialization activities and market access, and develop ecotourism activities. The project will also facilitate the achievement of commercial arrangements between local organizations and existing national or international buyers, and will provide assistance in formalizing the associations; preparing applications for project funding; or accessing microfinance funding through the banking sector or specialized institutions.

**Chart 1: Institutional and Implementation Arrangements**



## B. Results Monitoring and Evaluation (M&E)

80. Project M&E is undertaken to: i) establish a common environment for information sources describing the landscapes and economic opportunities; ii) develop a tool for results-based management of the project; and iii) meet routine reporting requirements as part of the World Bank project cycle. It is designed as a framework for accountability of progress toward local, regional, and national objectives in the management of natural resources and related value chains in Tunisia. This includes accountability of the participating ministries and their departments and agencies. In terms of accountability toward citizens, demand on social accountability of interventions will be captured through a citizen engagement indicator that will also measure gender aspects. The citizen engagement framework is based on a perception survey and a strong feedback loop. The range of sources of data include: a perception survey (measuring citizen engagement); and a field survey (measuring landscape management and value-chain aspects, e.g. access to inputs, storage capacity, infrastructure, and organic parameters). The frequency of data collection will be annual. Central to the M&E approach is a platform for the communication of results, including dissemination and communication products. The project will place special emphasis on the mapping of project interventions and results through geocoding of activities, and overlay of key indicators.

81. UGO, under the leadership of COPIL, will have the overall coordinating role in M&E. They will have a dedicated M&E specialist who will ensure that data and information from all landscapes and institutions are produced and collected on time, and that they are of a sufficient quality. At the national level, UGO will lead all aspects of M&E, and will provide operational tools and instruments for data collection at the local level. Assistance will also be provided to CDLs in monitoring and implementing their respective ILDPs. The Project Manual of Monitoring & Evaluation has been included as part of the POM.

82. In terms of M&E, the activities of the UGO specialists will be to: (i) generate information on the progress of the project, based on the Results Framework in Annex 1; (ii) analyze and aggregate data generated at the local and regional levels; and (iii) document and disseminate key lessons to all stakeholders in Tunisia, through the communication function of the UGO.

83. Conducting a rigorous impact evaluation will be instrumental in improving performance and future project design. The trust funds will need to be mobilized to conduct such an evaluation at the project's mid-term and final stages.

## C. Sustainability

84. The Government of Tunisia is committed to developing the country's lagging regions and improving the livelihoods of local populations in these areas. The project's sustainability will be measured in the dissemination of lessons learned concerning the improvement of sustainable management of agricultural resources; the creation of economic opportunities; the promotion of livelihood diversification in the targeted landscapes; and how all of this informs the Government of Tunisia program.

85. The project will build sustainable models of participatory approaches, and will demonstrate:

- Coordination between existing institutions and actors at the central and local levels, to ensure implementation and help secure post-project continuity;
- Empowerment of all local-level stakeholders in decision making, as well as in training and capacity building activities that are well-tailored to meeting their specific needs; to building ownership; and to promoting post-project continuity of interventions; and
- Efficient knowledge management and the sharing of systems in order to capitalize on lessons learned; mainstream them into national policies; and extend them to other regions.

86. The proposed project will support the dissemination of practices, technologies, and techniques that are expected to improve the productivity of agricultural systems and household resilience in order to boost economic and financial sustainability. Adequate communication and knowledge-sharing initiatives will be the most important means of ensuring sustainability. Partnerships will be established with some other projects, including the dissemination of technologies. Through participatory measures, marginalized categories of the populations will be progressively integrated into the development of their local areas.

# V. KEY RISKS

## A. Overall Risk Rating and Explanation of Key Risks

87. The proposed project faces a range of **substantial risks**, which are outlined here, along with related mitigation measures:

- ***Political and Governance risks.*** Policies are still not systematically or fully implemented and, in spite of the adoption of the constitution, political tensions leading to instability and changes in government and/or in ministerial positions, could jeopardize project continuity and, more broadly, institutional and economic revival. These risks will be mitigated, to the degree possible, by the following measures: (i) extensive dialogue with national stakeholders during project preparation, to ensure their strong and broad-based commitment to the content and objectives of the project; (ii) strong engagement with, and institutionalization of, the project with technical counterparts in public administration who are less likely to be affected by political changes, and may be able to ensure continuity in the face of political instability; and, (iii) strong communications about the project, both across ministries and externally, to try to build interest and momentum from a broad range of stakeholders. Indeed, this project is of high strategic relevance to both the government and MARHP, and is closely aligned with the new Five-year Development Plan, and the National Strategy for Sustainable Management of Forests and Rangelands (2015-24). ***Macroeconomic risk is rated as Substantial*** due to poor macroeconomic conditions with a large fiscal deficit, a spiraling wage bill, and an increase in fiscal risks and the possibility of slippage in implementation of macroeconomic reforms, all of which could constrain public investment during implementation of the proposed project. This risk is mitigated through strong policy dialogue and complementarity of the proposed operation with the DPO.
- ***Sector Strategies and Policies are also rated as Substantial*** due to the fact that proper rural planning could be threatened by the current persistent lack of strategic and legal frameworks for the sustainable management of rural landscapes, which is favoring

current trends towards undesirable changes in land use, and land speculation. The lack of decentralized decision making, and the weakness of grassroots associations could hamper the implementation of the project, and also hinder long-term proper spatial and sectoral integration of the proposed activities. The project will address this risk by building on DGF's strategy for incrementally delegating responsibilities to the local level. Under Component 1, support is provided to MARHP to strengthen its relevant legal and institutional frameworks. This includes revisions to the Forestry Code, the development of forest and rangeland co-management plans, and technical support for the CRDAs and CDLs to strengthen their capacity to engage with local stakeholders on participatory, bottom-up, pro-poor elaboration of the ILDPs.

- ***Technical Design of Project risks*** are due to the fact that the project will be implemented with support from a number of entities, including several that are regional agencies. Coordination among these agencies will be difficult to ensure, thereby posing a Substantial risk to the project. This will be mitigated by focusing on capacity building and coordination under the project, as well as M&E activities under Component 3. Also, the proposed institutional arrangements with central and regional-level implementation arrangements to ensure close supervision will be a mitigating measure.
- ***Institutional Capacity for Implementation and Sustainability*** are also Substantial due to the fact that the operation seeks an innovative, decentralized approach in several regions. Some of the regional actors have not worked with the World Bank before and will face a steep learning curve. The operation will focus on capacity building of MARHP and its institutions under Component 1 to mitigate against this risk.
- ***Key fiduciary risks*** are: (i) risks related to the involvement of many institutional actors at the national, regional, and local levels; (ii) the use of both World Bank and national procurement procedures; (iii) lack of the capacity and experience needed to undertake and manage World Bank procurement, mainly at the regional and local levels; (iv) lack of use of the procurement plan as a monitoring, evaluation, and management tool; and (v) delays in the evaluation of bids and technical proposals, and in the clearance process due to mainstreaming, contract monitoring, and administration. To mitigate these risks, the World Bank will provide training to DGFIOP, UGO, and RPIT, in particular for the use of specific public procurement tools such as Systematic Tracking of Exchanges in Procurement (STEP). DGFIOP is solely responsible for markets and contracts vis-à-vis the World Bank, through UGO, which will: (i) have direct responsibility for the awarding, signing, and monitoring of contracts awarded at the national level; (ii) ensure the follow-up of local infrastructure contracts, and (iii) will report on contracts that may have been passed on at the level of small local entities, without being involved in the direct implementation of the contracts. Fiduciary risks will be mitigated through specific fiduciary controls that are outlined in detail in the World Bank financial management and procurement assessments.
- ***Environmental and Social risks are rated Substantial.*** To mitigate, close implementation support will be provided to ensure that environmental and social safeguards best practices are followed and safeguard tools have been well implemented, such as the ESMF, PF, RPF. The UGO will be staffed with safeguards specialists who will receive requisite training and capacity building throughout. Community and all stakeholders will also be engaged and receive appropriate training as an additional mitigating measure.

- ***Stakeholder risks are rated Substantial due to the issues related to citizen trust, governance and vested interests.*** First, they will be addressed by providing resources for dialogue platforms, policy studies, and stakeholder engagement processes, underpinned by solid sectoral and product diagnostics. This flow of evidence and information, and the stakeholder engagement process, will help shift incentives, and help to reduce the impact of vested interests. Second, a transparent approach will be promoted and implemented in order to improve the overall governance of agricultural resources and integrated landscape management (ILM). Third, the introduction of a pro-poor methodology for needs identification, and prioritization of investments that will allow for greater attention to the poor and other vulnerable groups, will help to reduce the effect of elite capture at the local level. This includes: (i) introducing participatory methodologies, tried and tested in a number of countries, to help ensure that all stakeholders have a voice in the planning process; (ii) introducing accountability mechanisms such as regular multi-stakeholder implementation monitoring, to ensure that the plans are implemented as agreed upon; and, (iii) providing training and facilitation at the local level, to resolve conflicts between more powerful and less powerful groups. This will also build on already-existing CDLs to ensure greater local ownership and buy-in. Moreover, consultative processes and grievance redress mechanisms (GRMs), social mobilization, and communication strategies will address identified local-level risks. This will help ensure that benefits flow toward the "bottom 40 percent" of the population. The MARHP has engaged several participatory projects with local populations, but following the revolution, trust needs to be restored between these actors. The project will address these risks by providing resources to improve policy interpretation and implementation practices on the ground, and by introducing new skills, tools, and models for engaging more effectively with resource users.

# VI. APPRAISAL SUMMARY

## A. Financial and Economic Analysis

88. **Financial Analysis**. Quantifiable benefits assessed for both the financial and economic activities are derived from the Component Two: *Fostering sustainable regional investment* and its sub-component *Fostering economic growth* (CP 2.3), to demonstrate that income-generating activities on and off-farm, as proposed in the Project (mentioned hereafter as ILDP), are profitable and therefore sustainable. A number of indicative activities were identified during the design of the program and several models were developed for the three main groups of value chains supported by the Project: (i) Forest products for consumption (FPCs), (ii) Aromatic and Medicinal Plants (AMPs) and (iii) Agricultural Products (APs) within peri-forest area.

89. The FPC (Stone pine, Aleppo pine) and AMP (myrtle, mastic) activities analyzed show financial profit margins that are consistent with evolution of the value created by each actor in the chain, with incremental net ranging from US$341 for an AMP harvesting and first processing to US$1130 for FPC retail. Overall, both harvesters of the forest products and small agricultural producers at one end of the chain, and buyers of forest and agricultural products on the other end, present net benefits, showing that these activities are profitable, and therefore financially sustainable. Through PAs established with the project, harvesters of the forest products and small

agricultural producers are expected to gain better access to these resources and to a guaranteed market, while buyers and processors are expected to obtain a reliable supply, upgraded equipment, and some technical assistance, allowing them to decrease the costs of production, increase quality, and add value to the products.

90. Support for APs within the peri-forest area (meat from sheep and beef, cow milk, apples, and olives) will bring financial net benefits ranging from US$299 for an upgrade of 1 hectare of an existing, extensive apple plantation to US$279,125 for a new dairy processing and cheese-making unit. The base Internal Rate of Return (IRR) for newly-established activities ranges between 13 percent (for cold storage) and 26 percent (for an olive plantation), which is comfortably above the opportunity cost of capital (10 percent has been used in the present analysis). Furthermore, the cofinancing grant scheme proposed by the project would make the investment even more profitable to the beneficiaries. Details of the analysis, assumptions, and results of models developed for the financial analysis are provided in Annex 5.

91. **Economic Analysis** attempts to capture the entire benefits of the project from a societal viewpoint, taking into account the benefits estimated in the financial analysis (CP 2.3), as well as the benefits from CP 2.1, (climate-smart and sustainable agricultural practices), and CP 2.2 (complementary infrastructure), as follows: (i) reforestation activities; (ii) reduction of dam sedimentation; (iii) rangelands rehabilitation; (iv) rehabilitation of feeder roads, and (v) carbon sequestration. Details of the estimate are provided in Annex 5.

**(i) Benefits from reforestation activities.** The project will support interventions for forest regeneration within the 10 preselected LUs by planting forest species (e.g. cork oak, eucalyptus, and Stone pine in the Northwest; Aleppo pine, eucalyptus, and acacia in the Center-West) on 2,300 hectares of degraded oak forest, and 886 hectares of degraded pine forest and shrubs. The analysis[26] shows that interventions on degraded forests would be profitable, generating incremental net benefits of US$1,196-3,684 per hectare. Benefits include the production of cork, wood, acorns, and forage.

**(ii) Benefits from reduced dam sedimentation.** Considering a forest area of 1,840 hectares to be rehabilitated in the Northwest, and 709 hectares in the Center-West, total avoided sedimentation is estimated at 23,793 cubic meters[27]. To state this result in monetary terms, an average cost of US$0.8 per cubic meter of replacing the storage capacity through the construction of new dams has been used. The benefits of reducing dam siltation is estimated at 19 655 US$.

**(iii) Benefits from rangeland rehabilitation**. The economic value of the benefits provided by other steppe rangelands and pastoral plantations have been estimated at US$31 per hectare, including benefits from forage production; AMPs; *remeth* (which is used to manufacture snuff, or *neffa*); and honey production, as well as recreational services and biodiversity conservation within rangelands.

**(iv) Forest road rehabilitation**. Investments in forest access and intracommunal roads have been used as proxy for small infrastructure investments, to illustrate how better access would improve the operational efficiency of the value chain, increase the volume of produce collection, and reduce transportation costs. Improved roads would result in cost and time savings for the village population, including those not directly involved in the value chain. In this model, a 10 kilometer road serves three forest villages, connecting them to the nearest town. The potential benefits would accrue from the increased volume of transported forest products, and reduced transportation costs. It is assumed that as a result of improved access, transportation unit costs per kilometer would be decreased by 10 percent, while the volume of tradable agricultural products would increase by 40 percent. The base IRR for this model is 20 percent.

**(v) Benefits from Carbon sequestration. Benefits from carbon sequestration.** The project interventions are expected to reduce greenhouse gas (GHG) emissions by an estimated 5.5 million tCO2eq over 20 years, which constitutes a value of US$167million 28. GHG emission calculations using the Ex-ante Carbon balance Tool (EX-ACT are done here for a six-year project and a 20-year time frame. The assumptions include afforestation of 3,186 hectares on previously degraded land, rangeland establishment on 3,875 hectares, and olive tree plantations on 20,000 hectares. It also assumes the use of sustainable land-use

[26] Calculations are based on analysis as follows: World Bank 2010 for cork oak, Stone pine, acacia, and eucalyptus; Daly-Hassen et al. 2008 and Campos et al. 2008 for cork oak; Daly-Hassen 2001 for the Aleppo pine; Croitoru and Daly-Hassen 2010 for acacia.

[27] Estimates of the dam sedimentation have been based on the analysis conducted in the Barbara and Siliana watersheds.

[28] Social cost of carbon of US$30 per tCO2eq has been used. The global carbon market price is an indication of developed countries' willingness to pay for carbon reductions.

management practices, such as improved agronomic practices, nutrient management, zero tillage, water management, and manure application.

92. **Project estimated return.** Base case economic internal rate of return (EIRR) is estimated at 14 percent over 20 years; the net present value (NPV) of the project's net benefit stream, discounted at 10 percent over 20 years, is US$154 million. A summary of the economic and sensitivity analysis is presented in Annex 5: additional details and calculations are available on file.

93. **Sensitivity analysis** assessed the effect of the main risks for the project, and the adverse situations that could arise and have an impact on project benefits and costs, as well as various lags in the realization of benefits. This analysis shows that any adverse situation would bring the EIRR below 12 percent. Furthermore, the base rate is slightly more sensitive to benefit shortfalls than cost increases of equal magnitude. Given the scarce resources, the project should pay more attention to the mitigation of risks that would decrease or delay benefits than the ones that would increase costs. Overall, the predicted project returns are substantial even when considering key risk factors. In addition, significant additional benefits can be expected from increases in employment, which have not been included in this quantitative analysis. A substantial number of temporary jobs, but also some permanent jobs, will be created following increases in agricultural production and other income-generating activities, as well as civil works planned under the project.

**94. Non quantifiable benefits**. It is important to note that in addition to the benefits quantified throughout the analysis, the project is also likely to generate additional benefits that are more difficult to quantify due to lack of data. These benefits include: (i) increased post-harvest storage and processing facilities; (ii) job creation; (iii) valuation of biodiversity corridors and tourism; and (iv) capacity building of local institutions, comanagement, institutional strengthening, and forest inventory, and information management systems. For this reason, the above analysis should be seen as an underestimation of the potential benefits of the project.

### Rationale for public sector provision and financing

95. In Tunisia, property rights are primarily public and collective, depending on the type of land use. Therefore, the private sector has no incentive to invest in the rehabilitation of land. In addition, these agro-silvo-pastoral ecosystems provide public goods and externalities (for example, reservoir sedimentation downstream of a watershed). Public good and externality, as well as poverty reduction objectives suggest that using public sector funds to finance the project is appropriate.

96. Furthermore, the main beneficiaries of the project are vulnerable farmers, other agricultural producers, self-employed service providers, or microfirms in lagging regions, who are unable to access higher value-added markets or achieve higher productivity due to coordination and information failures. Financing will be provided (with progressive contribution by beneficiaries in proportion to annual revenues) to secure common services and facilities, and to encourage coordinated investments that would not be possible without the facilitation and support of the public sector, due to the atomized nature and vulnerability of targeted beneficiaries. Financing is restricted to vulnerable beneficiaries who are addressing strategic (higher value-added) markets.

### Value added of the World Bank's support

97. Earlier World Bank projects implemented in Tunisia provide successful examples of community-based initiatives and rehabilitation practices conducted in specific sites (e.g. Northwestern watersheds). While these projects established necessary institutional strengthening at the local level, none of them addressed the complexity of governance problems that agricultural development faces at the national level. Thus, the value added of the proposed project consists in: (i) gradually introducing a more sustainable governance system based on the integrated co-management of landscapes (line departments together with local stakeholders), by revising national-level legislation and introducing economic mechanisms to help its enforcement; (ii) scaling up the investments proved to be most successful by earlier projects; and (iii) drawing on global experience related to innovative mechanisms for local communities to conserve and benefit from forest and rangeland resources.

98. The World Bank has been a longstanding partner of the Government of Tunisia in supporting the country's agriculture, forest, and rangeland sector, through the financing of several projects.[29] In addition, it has considerable experience in addressing the challenges in the silvo-pastoral sector in many countries, such as Brazil (Espirito Santo Integrated Sustainable Water Management Project, P130682); Mexico (Forests and Climate Change Project, P123760); Colombia, Costa Rica, and Nicaragua (Integrated Silvo-pastoral Approaches to Ecosystem Management, P072979); Bangladesh (Climate Resilient Participatory Afforestation and Reforestation Project, P127015); Turkey (Anatolia Watershed Rehabilitation Project, P070950); and the Albania Forestry Project (P008271). Thus, the World Bank is uniquely positioned not only to provide expert input, but also to catalyze existing energies in order to solve important problems of the lagging regions of Tunisia, and to strengthen the enabling environment for the sustainable management of their natural resources.

## B. Technical

99. The project's design is based on successful approaches and methodologies already developed under other projects in Tunisia and elsewhere, as well as on lessons learned by past and/or ongoing projects for sustainable land management, community development, participation, and access to markets. Activities are designed to fit within the responsibilities of MARHP, which is the country's institution with the legitimate mandate for agricultural resource management and improvement. The project will provide the means, capacity building, and incentives to engage more effectively with communities and their local institutions to devolve planning and management responsibilities that will lead to improved outcomes in agricultural ecosystems and improve access to economic opportunities.

100. Communication and capacity-building efforts will be aimed at community-level institutions, as well as at government officials. These components will work together to change

[29] Forested Areas Development project (I and II); Rural Development and Natural Resource Conservation; Second Natural Resources Development Project (PNO2), Third Northwest Mountainous and Forestry Areas Development Project (PNO3); Fourth Northwest Mountainous and Forested Areas Development Project (PNO4); and Oases Ecosystems and Livelihoods Project (TOELP).

the incentives, practices, relationships, and communications about agricultural use and associated products. Key MARHP-involved directorates, if adequately restructured, can improve landscape management and create collective incentives. Improved extension and service delivery can also help achieve better yields on existing land. If the demonstrable effects in the target areas are high, replication should proceed in other landscapes of the same regions. The use of existing regional and local institutions will contribute to robustness of the technical design. Involvement of GDAs, SMSAs, and other professional associations will be key in addressing the most urgent issues affecting the landscape, and the economic drivers originating in the agricultural sector.

101. The subcomponent on policy reforms and institutional strengthening is designed to respond to the fact that current policy implementation practices create disincentives for rural communities to take good care of their ecosystems. The project will provide the resources needed to improve policy interpretation and implementation practices on the ground, as well as the new skills, tools, and models needed for UGO staff to engage more effectively with resource users. These interventions should foster more collaborative approaches that can reduce resource use-related conflicts and lead to more beneficial future interactions.

## C. Financial Management

102. As part of the preparatory activities of the project, and following the World Bank's operational policy OP 10.00, the financial management (FM) team carried out a desk financial management assessment of DGFIOP within MARHP, and on-site assessments of the CRDA of Jendouba; the Forestry Unit of the CRDA of Beja; and selected GDAs in Beja (Tabouba and Oued Maaden). These assessments were completed during appraisal by an on-site visit to DGFIOP. The main objective of the assessment was to determine whether the FM arrangements proposed for the project provide reasonable assurance that the loan proceeds will be used for the purposes intended, and that due attention to considerations of economy and efficiency will be given. The FM team concluded that, while the proposed FM arrangements are generally acceptable, there are areas for improvement and several mitigating measures have to be put in place to ensure smooth implementation.

103. The project design is complex and entails the participation of several implementing institutions at the national and regional levels, with mixed fiduciary capacity and experience. MARHP, through DGFIOP, will be responsible for overall project fiduciary oversight, including FM and disbursement arrangements. Additionally, the eight participating CRDAs will be in charge of implementing a series of activities under Components One and Two of the project: they will therefore also perform some FM activities. The desk assessment revealed a number of weaknesses and risks that need to be addressed in order to ensure a solid fiduciary environment for smooth project implementation, namely: (i) DGFIOP already handles the implementation of a number of investment projects with a limited number of ministry staff: adding a new project to its current scope of work would create a heavy workload that could have a negative impact on efficient project implementation, monitoring, and coordination; (ii) Financial management capacity, including FM staff, is weak at the CRDA level, as they are not familiar with the World Bank's FM and disbursement procedures; (iii) There is need for an integrated project information system that supports project accounting and financial reporting at both the national and regional levels, and ensures proper tracking of project funds, as well as the timely production of consolidated financial reporting, to enable timely decision making for project management.

104. In order to mitigate the identified risks and weaknesses, a number of measures will be put into place before project effectiveness. These measures have been widely discussed with the client, and have been agreed upon during project appraisal. These measures include: i) the creation of a dedicated Project Implementing Unit (UGO) at MARHP, with a fiduciary department that will include a fully dedicated Financial Management Specialist (FMS). Each participating CRDA will also be staffed with a dedicated person in charge of accounting, disbursement, and financial reporting matters; ii) an Integrated Information System to monitor project activities at the MARPH and CRDA levels will be implemented before project effectiveness. This system will include a financial module, and will allow for the production of single and consolidated annual and semiannual financial reports. It was agreed that the project will use the *Monitoring, Evaluation and Implementation of Public Projects system* (Système de Suivi et d'Evaluation de l'Exécution des Projets Publics developed by the National Computing Center (CNI)); (iii) the POM includes detailed accounting, disbursement, and financial reporting procedures, responsibilities, and deadlines. It also describes in detail the responsibilities and interactions between UGO at MARPH and the project fiduciary staff at the CRDA level; and iv) trainings on World Bank FM and disbursement matters will be delivered to FM staff at both the national and regional levels on a periodic basis.

## D. Procurement

105. Procurement for the project will be carried out in accordance with the provisions stipulated in the loan agreement and the World Bank New Procurement Framework (NPF) for Investment Project Financing applicable from July 1, 2016. Within the NPF are four mandatory documents--Policy, Directive, Procedure, and Procurement Regulations for Borrowers (Regulations)--that are available on the World Bank's website (http://www.worldbank.org/procurement). When approaching the national market, as agreed between the World Bank and the Borrower, the Tunisian national public procurement procedures may be used: in all cases, the national procurement procedures to be used shall give due attention to quality aspects. The project will be carried out in accordance with the provisions of the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011 and as of July 1, 2016 (Anti-Corruption Guidelines).

106. DGFIOP, within MARHP, will host a project implementing unit (UGO), which will be responsible at the national level for: (i) the coordination of project stakeholders and activities, including the preparation and update of the procurement plan; (ii) the follow-up of local infrastructure contracts; (iii) the consolidation of periodic progress reports on procurement activities; (iv) the awarding, signing, and monitoring of contracts with large amounts or on the national scale; and (v) global supervision and implementation to be carried out by CRDAs. In order to assume such roles and responsibilities, UGO shall have, from the time of the project launch until the end of the project, a full-time, dedicated qualified procurement specialist, seconded by DGFIOP. The procurement specialist will work closely with, and will be assisted permanently by DRPS for the technical side (i.e. preparation and finalization with the World Bank of each TOR). The project will also hire, when necessary and when approved by the World Bank, consultants in procurement to ensure the successful implementation of the project.

107. The CRDAs representing MARHP in the regions will be in charge of day-to-day procurement activities at the regional and local levels. In each CRDA, a regional project implementing team (RPIT) will be created and led by the head of DRPS, who will coordinate project-related activities. Each RPIT will be responsible in their region for: (i) all procurement activities planned in the field according to the annual work program and budgets; (ii) management of signed contracts at the regional and local levels; (iii) reporting on contracts that may have been passed on at the level of small local entities, without being involved in the direct implementation of the contracts; and (iv) reporting periodically to UGO on progress made. The RPIT will have qualified procurement staff seconded by the CRDAs, or hired by the project for the technical side. The project will hire, when necessary and when approved by the World Bank, consultants in procurement services to ensure the successful implementation of the project.

108. DGFIOP is solely responsible for, and accountable to the World Bank for all actions carried out for procurement at the national, regional, and local levels until the end of this project. Therefore, for each contract in this project that is financed by the World Bank, DGFIOP is accountable staring with the preparation of the TORs, and throughout the selection process, the implementation, and the payment of each contract.

109. For large and complex contracts at the national and regional levels, the World Bank's procurement procedures will be used. This includes the use of the World Bank's standard bidding documents (SBDs). For small contracts, the Tunisian Public Procurement, which is regulated by Decree 1039, dated March 2014, will be applied.

110. A procurement capacity assessment was carried out for DGFIOP and the CRDAs of Beja and Jendouba (see Annex 3 for details). The assessment is based on the knowledge and procurement experience of these executing agencies (EAs) in the implementation of World Bank and non-World Bank projects, taking into account the nature of the expenditures and the likely size of the contracts to be procured. The main objectives of this assessment were to determine whether the implementing agencies have the capacity to adequately carry out the procurement activities of the project. Potential procurement risks identified during the assessment were also analyzed, in order to recommend adequate mitigation measures. The assessment also takes into consideration the performance of the Tunisian public procurement system, and the overall implementation rate of the World Bank's portfolio in Tunisia.

111. Key results of the assessment are as follows:

- The EAs have good experience with multilateral development banks, and with the World Bank, African Development Bank (AfDB), International Fund for Agricultural Development (IFAD), French Cooperation Agency (AFD), and other funders' procurement procedures. However, the NPF recently adopted by the World Bank requires those responsible for public procurement to be fully conversant with the new procedures.
- The EAs have the capacity to carry out and manage similar projects. However, there is a lack of sufficient human resources and currently available staff are already overloaded with the implementation of projects funded by international finance institutions and the national budget. Staffing turnover and scarcity, and delays in the appointment or recruitment of personnel dedicated to the project could negatively impact implementation.

- The EAs seem to be equipped for the monitoring and evaluation of contracts (SESAME), but they have to use the new mandatory tool developed by the CNI. They also have to learn the World Bank's new tool for STEP.
- Finally, it should be pointed out that local or community actors who are not familiar with procurement procedures will be implementing many of the local initiatives: both World Bank and Tunisian procurement procedures and policies are poorly known, and often ignored.

- The procurement risk is rated ***Substantial***. Procurement implementation support will include: (i) providing sufficient training to members of the EAs who are involved in procurement; (ii) reviewing the POM and SBDs; (iii) providing timely feedback to the EAs; (iv) providing detailed guidance on the World Bank's NPF; and (v) monitoring procurement progress against the detailed procurement plan.

112. In order to determine the optimal procurement approach that will yield the right type of response from the market, a Project Procurement Strategy for Development (PPSD) will be prepared in order to consider, among other things, the market situation, the operational context, previous experience, and risks. The PPSD and the Procurement Plan were prepared by the borrower with World Bank support. In addition, the POM has defined the main aspects of administrative arrangements, information flow, and procurement rules and procedures.

**E. Social (including Safeguards)**

113. In accordance with Tunisian legislation, and in compliance with the World Bank's OP 4.12 on involuntary resettlement, a Resettlement Policy Framework (RPF) has been prepared by MARHP. The RPF was approved during a national workshop held January 3, 2017 with the participation of key stakeholders, and was posted on MAHRP's website and the World Bank's external website on January 16, 2017. The major conclusions of the RPF are:

- Social impacts of the activities of the proposed project are expected to be positive. Agricultural resource users and producers (including women and youth) will directly benefit from a variety of investments aimed at rehabilitating their natural resources, creating new economic opportunities and growth, and building their technical and managerial capacities.
- Negative environmental and social impacts of the institutional and legal reforms of Component 1 will be minimal, provided that legislative and regulatory texts take into account environmental and social safeguard requirements.
- While Component 2 may finance small-scale physical investments (including local community facilities, small water-catchments, and gravel roads), the impact on project-affected persons (PAPs) related to physical relocation, land acquisition, or economic displacement (i.e. loss of income, livelihoods, or businesses), are expected to be minimal or nonexistent. As defined by the RPF, by the RPF, a screening process will help to identify investment subprojects that might result in involuntary resettlement, and in such cases an Abbreviated Resettlement Action Plan (ARAP) will be prepared.

114. A Process Framework (PF) was prepared by MARHP, because Component 2 is likely to include activities involving, for limited periods of time (between three months and three years), the involuntary restriction of access to and use of specific natural resources designated for conservation activities by local communities. These restrictions will concern forests and

rangelands whose degradation has not yet reached the threshold of irreversibility, and which will be rehabilitated with different techniques. Adequate compensation measures will be identified in a Process Action Plan, to be formulated in a participatory manner with concerned stakeholders. The PF dated January 16, 2017 was posted on MARHP's website and the World Bank external website.

### F. Environment (including Safeguards)

115. In reference to the World Bank's OP/BP 4.01 on Environmental Assessment, given that the effects of the proposed Project are expected to be limited, not irreversible, and easily controllable and manageable, the project is classified as ***Environmental Category B (partial assessment)***.

116. MARHP prepared an Environmental and Social Management Framework (ESMF), which was approved during the national workshop on January 3, 2017, and was posted on the MARHP website and the World Bank's external website on January 16, 2017.

117. Activities to be financed by the project will follow the steps of the environmental screening process through the completion of an Environmental and Social Diagnostic Fact Sheet (FDES), which will determine the magnitude of negative impacts of the subproject on the human and biophysical environment (including potential water, air, and noise pollution during construction, the generation of liquid and solid waste, the cutting of trees, etc.). Based on the information included in the FDES, it will be possible to determine if a complete Environmental and Social Management Plan (ESMP), or a simple Environmental and Social Information Fact Sheet (FIES) will be required, in order to identify expected risks and related measures aimed at reducing or avoiding them. ESMPs and FDESs will be elaborated on in consultation with key local stakeholders, and will be published and posted on the MARHP website and the World Bank's external website. Mitigation measures identified in these safeguard tools will be included in the Terms and Specifications documents (*Cahiers des charges*) for operators and entrepreneurs. During implementation, and as dictated by the screening checklist, a site-specific ESMP will be prepared, reviewed, approved, and disclosed both in-country and on the World Bank's external webpage prior to the commencement of any civil work. Within UGO, an environmental and social specialist will be recruited to follow up on the screening mechanism established in the ESMF, and to see that the mitigation measures contained in the site-specific ESMPs are well applied and monitored

118. Within each administrative district (*Imada*) covered by the project,[30] UGO will be in charge of the establishment and management of a Complaints Commission, made up of the representatives of local GDAs, SMSAs, CSOs, women and youth groups, as well as CRDAs and other deconcentrated technical services. UGO will prepare a template to help people potentially affected by subprojects to properly present their complaints, if needed, and to establish and deliver the amounts of compensation (by type), as defined in a participatory manner on the basis of the RPF and the PF. Related costs will be integrated into the subproject's budget.

[30] In the Tunisian administrative architecture, each governorate (*Wilaya*), chaired by a *Wali*, is made up of a limited number of *Mohtamdiya*, or counties, which are subdivided into a number of *Imadas*, or districts. *Imadas*, which are chaired by an *Omda*, are also subdivided into different *Masheikha*, or subdistricts, and are chaired by a *Chek*).

### Gender

119. Specific analysis to identify the activities to target, and to address possible gender gaps, as well as the subsequent monitoring of these activities by indicators in the RF were carried out. Specific indicators in the RF track the impact of the activities of the proposed project on women (both individual women and women's groups), including PDO Indicator 3, and Intermediate Result (IR) Indicator 5.

### Citizen Engagement

120. The project explicitly supports the engagement of stakeholders and beneficiaries through consultative processes, engagement in local-level planning, and feedback mechanisms to elaborate and adjust the ILM approach, as well as access to economic opportunities, thus contributing to achieving project outcomes and sustainability. Feedback mechanisms have been developed to ensure transparency, accountability, and learning, as well as a continuous dialogue with local-level beneficiaries and other stakeholders. During implementation, particular attention will be given to the capacity of local structures to close the feedback loop and report on actions taken in this regard. The specific elements of the framework for citizen engagement include: (1) support for the engagement of local rural communities in the planning and management of landscapes, including monitoring; (ii) support for community engagement in determining local investment in agriculture added-value-chain investments; (iii) support for a feedback mechanism from stakeholders and beneficiaries, designed to process concerns and questions from beneficiaries and other stakeholders at various levels (regional to local), with a view of resolving these concerns and questions within specific timeframes. The protocol and mechanisms for elements of the citizen engagement framework will be detailed in the POM. The quality of its implementation and progress will be monitored at both the regional and national levels, through supervision and dialogue.

## G. Other Safeguards Policies Triggered (if required)

121. In addition to OP 4.01 (Environmental Assessment) and OP 4.12 (Involuntary Resettlement), the following safeguard policies were triggered: (i) OP 4.04 on Natural Habitats; and (ii) OP 4.36 on Forests.

122. The overall environmental and social impact of the project is considered positive, and safeguard tools provide sufficient information for decision making on environmental and social aspects during the implementation phase.

## H. World Bank Grievance Redress

123. Communities and individuals who believe they are adversely affected by a World Bank-supported project may submit complaints to existing project-level GRMs, or to the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints are promptly reviewed in order to address project-related concerns. Project-affected communities and individuals may submit their complaints to the World Bank's Independent Inspection Panel, which determines whether harm occurred, or could occur, as a result of noncompliance with the World Bank's

policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and World Bank management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit http://www.worldbank.org/GRS.  For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org

## Annex 1: Results Framework and Monitoring

### TUNISIA: *Integrated Landscapes Management in Lagging Regions*

### Project Development Objectives (PDO)

PDO Statement

The project development objective is to improve landscape management and access to economic opportunities for targeted rural communities in the North West and Center West regions of Tunisia.

| **These results are at** | Project Level |
|---|---|

### Project Development Objective Indicators

| Indicator Name | Baseline | Cumulative Target Values | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | FY17 | FY18 | Fy19 | FY20 | FY21 | FY22 | FY23 | End Target (FY24) |
| Land area under sustainable landscape management practices (Hectare(Ha)) | 0.00 | 0.00 | 500.00 | 20000.00 | 50000.00 | 70000.00 | 80000.00 | 90000.00 | 100000.00 |
| Farmers associations and MSMEs in selected agricultural products with improved access to key buyers and/or markets (Number) | 0.00 | 0.00 | 20.00 | 50.00 | 100.00 | 150.00 | 200.00 | 300.00 | 350.00 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Target beneficiaries in lagging regions with rating 'Satisfied' or above on project interventions (disaggregated by sex, age: 15-35) (Percentage) | 0.00 | 0.00 | 10.00 | 20.00 | 30.00 | 40.00 | 60.00 | 80.00 | 80.00 |

**Intermediate Results Indicators**

| Indicator Name | Baseline | Cumulative Target Values | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | FY17 | FY18 | Fy19 | FY20 | FY21 | FY22 | FY23 | End Target (FY24) |
| Knowledge and planning base for agricultural and natural resources established (Text) | Score of zero | Score of zero | Score of zero | Score of two | Score of three | Score of four | Score of five | Score of six | Score of six |
| Integrated Landscape Development Plans in selected lagging regions developed and approved (Number) | 0.00 | 0.00 | 0.00 | 10.00 | 10.00 | 20.00 | 20.00 | 25.00 | 25.00 |
| Productive alliances | 0.00 | 0.00 | 5.00 | 10.00 | 15.00 | 20.00 | 30.00 | 40.00 | 50.00 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| developed according to defined criteria (Number) | | | | | | | | | |
| CSOs and MSMEs trained (Number) | 0.00 | 0.00 | 10.00 | 20.00 | 30.00 | 50.00 | 60.00 | 80.00 | 80.00 |
| Milestones achieved in reform of the agriculture and forestry sector institutional framework (Text) | Score of zero | Score of zero | Score of zero | Score of one | Score of two | Score of three | Score of four | Score of four | Score of four |
| Legal framework reviewed and revised (Text) | Score of zero | Score of zero | Score of zero | Score of two | Score of four | Score of four | Score of four | Score of four | Score of three |
| Area of forests and rangeland managed according to co-management plans (Hectare(Ha)) | 0.00 | 0.00 | 0.00 | 10000.00 | 15000.00 | 30000.00 | 50000.00 | 80000.00 | 80000.00 |
| Physical infrastructure completed in selected lagging regions operational supported by the | 0.00 | 0.00 | 0.00 | 2.00 | 8.00 | 15.00 | 20.00 | 25.00 | 30.00 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| project (Number) | | | | | | | | | |
| Number of business plans (Productive Alliances) supported by the project (Number) | 0.00 | 0.00 | 0.00 | 2.00 | 10.00 | 20.00 | 30.00 | 40.00 | 40.00 |
| Number of Value chains supported by the project (Number) | 0.00 | 0.00 | 0.00 | 0.00 | 1.00 | 2.00 | 3.00 | 4.00 | 4.00 |
| Forest area brought under management plans (Hectare(Ha)) - (Core) | 0.00 | 0.00 | 0.00 | 5000.00 | 10000.00 | 25000.00 | 35000.00 | 40000.00 | 50000.00 |

## Indicator Description

### Project Development Objective Indicators

| Indicator Name | Description (indicator definition etc.) | Frequency | Data Source / Methodology | Responsibility for Data Collection |
|---|---|---|---|---|
| Land area under sustainable landscape management | Core Results Indicator. Climate-smart agricultural practices, and sustainable | Annual | Field survey | MARHP |

| | | | | |
|---|---|---|---|---|
| practices | forest management and rangeland management practices are included. Examples (not exhaustive): Integrated soil fertility management techniques; conservation tillage; soil, water, and nutrient management; agroforestry; livestock husbandry and diversification; reforestation and afforestion; natural regeneration; rangeland seeding; rehabilitation of AMPs; thinning and pruning of forests; forest fire protection activities; biodiversity measures; forest and rangeland certification activities. | | Review of technical inspection reports upon completion of works | M&E functio n |
| Farmers associations and MSMEs in selected agricultural products with improved access to key buyers and/or markets | No description provided. | Annual | Field survey | MAR HP M&E functio n |
| Target beneficiaries in lagging regions with rating ‘Satisfied’ or above on project interventions (disaggregated by sex, age: 15-35) | The citizen engagement indicators on perception of satisfaction of project interventions captures demand-side social accountability, gender and youth dimensions as well as governance. Breakdowns by age and sex will be added after appraisal. | Annual | Perception survey | MAR HP M&E functio n |

**Intermediate Results Indicators**

| Indicator Name | Description (indicator definition etc.) | Frequency | Data Source / Methodology | Responsi bility for Data Collectio n |
|---|---|---|---|---|
| Knowledge and planning base for agricultural and | The unit of measure is a scoring from zero to six. scoring is based on achievement of | Annual | Self-evaluation | MARHP M&E |

| | | | | |
|---|---|---|---|---|
| natural resources established | the following outputs that all carry equal scoring and no particular order: • national forest and rangelands inventory (yes/no) • national restoration (afforestation) plan (yes/no); • land cover and soils potential maps elaborated (number); • Number of integrated forest and rangeland co-management plans developed in participative manner and approved by the forestry department; • agricultural management information and monitoring systems (yes/no) • Measurement, Reporting and Verification (MRV) system in place (yes/no) Example: a score of 3 indicates that three out of the six have been achieved. A score of 6 indicates that all have been achieved. | | | function |
| Integrated Landscape Development Plans in selected lagging regions developed and approved | No description provided. | Annual | Review of ILMDPs and approval letters | MARHP M&E function |
| Productive alliances developed according to defined criteria | Criteria: 1. Submitted proposals that are considered feasible and approved for funding 2. Contracts signed between the project and the producer organization 3. Transfer of funds to a PO designated bank account | Annual | Review of establishment documentation | MARHP M&E function |
| CSOs and MSMEs trained | No description provided. | Annual | Review of training service providers' report. | MARHP M&E function |
| Milestones achieved in reform of the agriculture and forestry sector institutional framework | The unit of measure is a scoring of zero to four. This indicator measures the critical milestones (to be identified during the project preparation stage) over the | Annual | Self-evaluation | MARHP M&E function |

| | | | | |
|---|---|---|---|---|
| | implementation of the new institutional framework governing the agriculture and forestry sector. The unit of measure is a scoring from zero to four. The milestones are sequential and have to be achieved in the order described. | | | |
| Legal framework reviewed and revised | The Unit of measure is a scoring of zero to three. Legal framework reviewed and revised: 1. review of existing legislation: forestry code, water code, soils code, land tenure code, public-private partnership (PPP) code and agribusiness related regulation 2. Review of co-management model (before replication) 3. Revision of existing regulation. The milestones are sequential and have to be achieved in the order described. | Annual | Review of report and recommendations for legal reform and of legal and judicial text revised based on recommendations | MARHP M&E function |
| Area of forests and rangeland managed according to co-management plans | The areas under co-management are defined by ecosystem boundaries. | Annual | Field survey and review of co-management plans | MARHP M&E function |
| Physical infrastructure completed in selected lagging regions operational supported by the project | (i) Irrigation (ha, number) (ii) Feeder roads (km) (iii) Water crossings (number) (iv) Small water reservoirs (number) (v) Small bridges (number) (vi) Culverts (number). Breakdown indicators by infrastructure type will be added after appraisal. | Annual | Review of technical inspection reports upon completion of works | MARHP M&E function |
| Number of business plans (Productive Alliances) supported by the project | Number of Business plans supported by the project and archived their expected results | Annual | Project and activity records | MARHP M&E function |
| Number of Value chains supported by the project | No description provided. | Annual | Nb of VC supported by the project | MARHP M&E function |

| | | | | |
|---|---|---|---|---|
| Forest area brought under management plans | This indicator measures the forest land area, which, as a result of Bank investments, has been brought under a management plan. This includes production and pro tection forests as well as other forests under sustainable management. The base line value is expected to be zero. | Annual | Field survey | MARHP M&E function |

## Annex 2: Detailed Project Description

### TUNISIA: *Integrated Landscapes Management in Lagging Regions*

| Components / activities | Estimated Project Financing (US$ million) |
|---|---|
| **Component 1. Laying the foundations for sustainable management of agricultural resources** | **14** |
| ***CP1.1. Information management and knowledge creation*** | ***8*** |
| Forest and rangeland Information system | 6 |
| Forest and rangeland co-management plans | 2 |
| ***CP1.2. Territorial Development Planning*** | ***3.5*** |
| Finalization of the ILDPs of the 10 selected LUs | 0.5 |
| Identification of new LUs and development of related ILDPs | 1 |
| Embedding development of productive alliances and Value chains | 2 |
| ***CP1.3. Strengthening institutional and legal frameworks*** | ***2.5*** |
| Strengthening the legal framework | 0.5 |
| Strengthening the MARHP institutional framework | 1 |
| Promoting Innovation through Research and Development | 1 |
| **Component 2: Fostering sustainable regional investments** | **80** |
| **CP2.1. Climate-smart and sustainable agricultural practice** | ***56*** |
| ***CP2.2. Complementary local infrastructure investments*** | ***7*** |
| ***CP2.3. Fostering economic growth*** | ***17*** |
| **Component 3: Project Management, Monitoring and Evaluation** | **6** |
| **Total Project Cost** | **100** |

1. ***Project concept***: The project seeks to promote the integrated landscape management (ILM) approach as a tool intended to support rural livelihoods, food production, and sustainable ecosystem management by maximizing the sustainable potential of natural resource assets in lagging regions. This approach aims to bring together relevant stakeholders in a particular region, at the scale of landscape, to agree on goals, align their activities, and share monitoring and verification. Clearly, combining all these elements is not easy. Such approaches are necessarily complex, because they require multiple stakeholders to collaborate in innovative ways in order to address difficult issues grounded in law, politics, governance, culture, and business practices. However, there is a growing consensus that despite the challenges, there is huge potential for this more integrated approach to have significant positive impacts. The implementation of the ILM approach will involve the following key steps:

a. Identification and characterization of Landscape Units (LUs) based on relative homogeneous characteristics (using environmental, socioeconomic, and demographic parameters), to define a specific pattern that may be repeated inside the landscape and that differentiates it from the surroundings.
b. CDLs will support the preparation of participatory ILDPs. These plans will examine the strengths, weaknesses, opportunities, and threats faced by the communities within an identified territory, and will outline the types of actions and value chains (VCs) to be

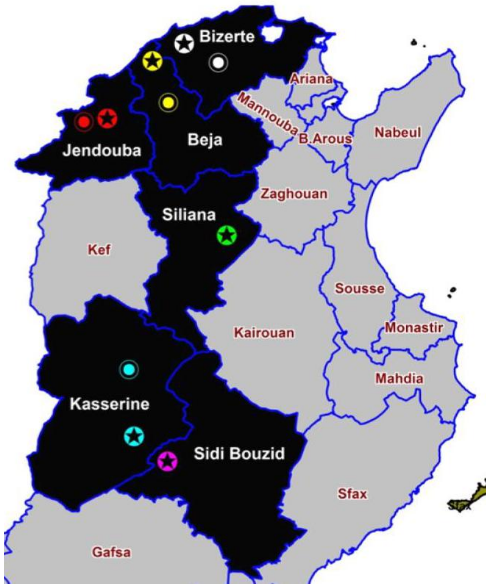
developed and supported to address weaknesses and threats, and exploit strengths and opportunities. The ILDP is designed using a community-led approach that facilitates the participation of key members in the community and considers both local needs and landscape potential. While the ILDP is multisectoral, the project will mainly support activities within the functional responsibility of MARHP, such as climate-smart agriculture and livestock activities; sustainable natural resource management practices; the development of agricultural products; rehabilitation and/or maintenance of essential socioeconomic infrastructures and facilities; and diversification of income-generating activities.  ILDP activities that fall outside the responsibility of MARHP (e.g., transportation, education, health, etc.) will be implemented by the relevant sectoral ministries and included in their programs of activities. CDL technical and managerial capacities will be supported by the CRDAs and the RPITs, as well as by qualified consultants, to be hired for the project.

c. Joint implementation of the project by local community organizations, and both public and private actors for the ILDP-agreed activities;
d. Monitoring and evaluation of the implementation of the ILDPs.

2. ***A phased approach.*** In order to allow the local population (through CSOs and GDAs) and private actors (from MSMEs and SMSAs) to comanage forest and rangeland resources, MARHP agreed to a phased approach. In the first phase, a comanagement model, Community Forestry and Rangeland Management Agreement (CFRMA), will define the roles and responsibilities of the forestry administration and of local communities (e.g. forestry user groups). They will be piloted during the first two years of the project in the selected LUs. The second phase will roll out the comanagement of forests and rangelands in the entire Northwest and Center-West regions. Before project negotiations, the Minister of MAHRP issued on 27 January, 2017, a decision authorizing local based organizations to co-manage forests and rangelands resources in the project selected landscapes. As requested under the new five-year Development Plan, the Minister of MARHP confirmed recently to the chamber of deputies the commitment of his department to proceed with the improvement of the forest code accordingly. During this pilot phase, provisions to improve the forestry code will be developed based on an in-depth review of the legal framework governing natural resources. Support for other activities (such as olive tree plantations, small agriculture around forest areas, or ecotourism services, etc.) will be possible during this phase.

3. ***Project areas.*** The project area consists of the entire Northwest and Central-West regions, including the northwestern part of the Bizerte governorate (delegation of Sejenane). While olive plantations will concern whole regions, other project activities will be based on the ILDP implementation at the landscape level. During the preparation period, the following LUs have been selected, based on several criteria, which will also be used to select other LUs. Figure 1 presents the main characteristics of the priority selected LUs, and Annex 1 presents a synthesis of priority investments in each LU, based on the elaborated draft ILDPs.

**Figure 1. Priority identified landscapes**




| Landscape Unit | Surfaces (ha) | Delegation |
|---|---|---|
| Choucha | 5332 | Sejnane |
| Chitana | 5185 | Sidi Mechreg |
| Bellif/Cap Negro | 11990 | Nefza |
| Tbaba/O.Maaden | 8610 | Nefza |
| Tbeinia | 10459 | Ain Draham |
| Atatfa | 12639 | Ain Draham |
| Bhirine/Ain boussaadia | 10961 | Siliana |
| El Wassaya | 11860 | Kasserine |
| Douleb | 8099 | Kasserine |
| Zoghmar/Selta | 12390 | Sidi Bouzid |
| **Total (ha)** | **97325** | |

**Component 1. Laying the foundations for sustainable management of agricultural resources (*US$* 14 million)**

4. The activities of this component will provide adequate support to initiatives aimed at: (i) improving agricultural, forest, and rangeland data, and information quality and accuracy at the national level; (ii) supporting ILM planning; (iii) strengthening the technical and managerial capacities of various national, regional, and local stakeholders involved in the development of agricultural products; and (iv) strengthening relevant institutional and legal frameworks. This component will strengthen the capacity for sustainable management of agricultural resources, while providing an information management system, as well as capacity building and technical assistance through consulting services (including short-term consultants).

5. ***CP1.1. Information management and knowledge creation (US$8 million)*** This subcomponent will strengthen the quality of agriculture, forest, and rangeland databases, and information which is key for enhanced strategic planning for ILM, and for addressing vulnerability to climate change by:

6. ***Supporting the development of a*** national information system for Forest, Rangeland and olive plantations ***(US$6 million),*** which will be used at the macro level for national and subnational planning processes, as well as for policy and strategy purposes. This system will include national forest and rangeland inventories; a national restoration (afforestation) plan; deforestation maps, soil maps, and biodiversity inventories; and an MRV system. Tunisia's national forest and rangeland information systems are underdeveloped and lack important information, hence the need for capacity building and developing the links needed to promote Sustainable Forest and Rangeland Management (SFRM). The national information system for Forest, Rangeland and olive trees will be developed by FAO through a direct contract with UGO.

(i) ***Updating and development of forest and rangeland comanagement plans*** ***(US$2 million)*** in targeted regions. All forests and rangelands in targeted regions require either an updated or a new management plan. These plans are the legal instruments needed to preserve the potential production of these ecosystems, and to ensure sustainable management. They are key to achieving a balance between production, social, and environmental objectives. The project will support the development of these plans, taking into consideration the use rights of the local population. Contractual principles will be applied as well, to allow local people to be involved in the sustainable management of these ecosystems, and to benefit from the rational use of their products and forestry work. Table 1 presents the management plans to be developed during project implementation.

**Table 1. Forest and Rangeland Comanagement Plans to be Updated/Developed in Targeted Areas, and Estimated Costs**

| /Selected Landscape Units | Area (ha) | Costs (1000 US$) |
|---|---|---|
| Choucha (Séjnane) | 5000 | 30 |
| Jbel Chitana (Séjenane) | 4462 | 30 |
| Bellif-Khorghalia (Nefza) | 10000 | 50 |
| Tbaba-Oued El Maaden | 3827 | 20 |
| Tbeinia (Aïn Draham) | 5650 | 30 |
| Atatfa-Ouled Sedra (Aïn Draham) | 3500 | 30 |
| Bhirine-Aïn Boussadia (Bargou) | 7650 | 40 |
| Jbel Sammama (Wassaya) | 4160 | 30 |
| Mghila (Layoun -Jelma ) | 16250 | 90 |
| | | |
| **Total for priority LUs** | **60499** | **350** |
| Management plans in other LUs | | **250** |
| **Total** | **60499** | **600** |

7. ***CP1.2. Territorial Development Planning (US$3.5 million)*** In the Northwest and Central-West regions, this subcomponent will support: (i) finalization of the ILDPs of the 10 selected LUs; (ii) identification and formulation of ILDPs of new LUs in the NW and CW regions; and (iii) embedding PA and VC development to improve market access for small local agricultural producers. This subcomponent will strengthen landscape development plans already prepared for the 10 pilot LUs, and provide support to expand the landscape identification and integrated planning methodology to an additional 15 new LUs in the target regions. The proposed ILM approach will incorporate a participatory, pro-poor methodology that will increase access for the poor and other vulnerable groups to the decision making process concerning the key activities needed to increase economic opportunities in each landscape. This process is expected to make the project selection process more pro-poor, within the context of the feasible set of community assets and economic potential.

8. ILDP enhancement will also involve identification of additional activities that will help (i) formalize market-oriented producer groups, and facilitate contractual partnerships between them and existing national or international buyers through the PA approach; (ii) improve access and product orientation to higher value-added markets by identifying the strategic investment in common services (e.g. cold chain services, packaging and marketing services, etc.) that is needed

to decrease intermediation costs on local MSMEs in targeted value chains.[31] Activities could particularly support the development of: (i) aromatic and medicinal plants (AMPs); (ii) forest products for consumption (FPCs); and (iii) local agricultural products such as olives, meat from sheep and cattle, cow's milk, apples, and peaches.

9. This subcomponent will be implemented by CRDAs and CDLs, as well as the proposed common value-chain development platform (see Box 1).[32] The project will support capacity building and technical assistance activities aimed to enhance participation and improve effectiveness in the planning, preparation, implementation, and M&E of ILDPs, as well as to foster the mainstreaming of ILDPs in municipal territorial planning and development processes. Based on the proposed phased approach, activities of this subcomponent will start in selected priority landscapes and will be scaled up to the other LUs. This subcomponent will strengthen the inclusive process, especially in the development of integrated management plans for selected LUs. Planning activities will provide support to both nonprofit and for-profit associations, and to local public and private institutions; will improve outreach and the participatory approach; and will establish comanagement contracts for forest and rangeland resources.

10. More specifically, this subcomponent will support the following group of activities:

a. **Finalization of the ILDPs of the 10 selected LUs (US$0.5 million),** by (i) strengthening CDLs, GDAs, and SMSAs, and involving local public and private institutions in planning, and in M&E; and by reinforcing their organizational and management skills as well as providing office equipment; (ii) providing training in communications, partnership, natural resource management, organizational and management skills, and conflict management; (iii) supporting finalization of the draft ILDPs; (iv) providing the support needed to implement signed CFRMAs through training in the technical and legal aspects of forest and rangeland resource co-management; (v) building capacity in the techniques of olive tree planting; and (vi) providing key training in diversification activities, including ecotourism and recreational activities.

b. **Identification of new LUs, and formulation of related ILDPs (US$1 million)** in the Northwest and Central-West regions. The project will support mobilization and awareness activities to generate demand for forest and rangeland co-management, olive tree planting, and the development of diversification activities, including ecotourism and recreation. CDLs, GDAs, and SMSAs, as well as involved private stakeholder institutions, will be strengthened, and the same training and capacity building as those presented above (CP1.2.a) will be provided, including support for the establishment of necessary CFRMAs for forest and rangeland resource management.

[32] The proposed platform will be established under CEPEX, through the Tunisia Third Export Development Project (EDP-3). It will help identify the strategic investments in common services (e.g. cold chain services, packaging and marketing services, etc.) that are needed to decrease intermediation costs on local MSMEs in targeted value chains, and to strengthen their competitiveness. See Annex 6 for more details on the platform.

c. **Embedding the development of PAs and VCs to improve market access for small local agricultural producers[33] (US$2 million).**

- This subcomponent will first provide technical and financial support to help formalize market-oriented producer groups (e.g. SMSAs, GDAs, etc.), and to facilitate contractual partnerships between them and existing national buyers. This support will be achieved through the creation of PAs (see Annex 6), with the provision of consulting and non-consulting services, capacity building, and equipment for key local stakeholders to: (i) deliver support to the producer organizations (POs) and buyers for elaborating their commercial arrangements and delivering related business and investment plans; and (ii) assess the resulting applications for co-financing, and provide recommendations to UGO based on the selection of beneficiaries as detailed in the POM.
- This subcomponent will also provide support services to improve both access to strategic and high value-added market segments, and to address market failures and constraints on trade and competitiveness to a maximum of six agricultural value chains, to be identified by the ILDPs. This activity will be contracted to the proposed dedicated Value Chain Development Platform (see Box 1 and Annex 7). An MOU contract between UGO and the platform, acceptable to the World Bank, will be elaborated and signed during a period of a maximum 18 months after project effectiveness. If the platform is not created, the project will hire, on a competitive basis, a consultant firm to achieve the proposed activities. Activities will include: (i) the provision of advisory services to beneficiaries on high value-added market intelligence and requirements; (ii) support to private sector and public actors in developing a market-oriented strategy to improve market access and competitiveness; and (iii) identification of the policies, investments, and especially common services (e.g. cold chain services, packaging and marketing services, etc.) needed to tackle VC-level market failures, by decreasing intermediation costs on local MSMEs, and increasing their access to strategic market segments with higher value-added and returns. These investments will be financed through subcomponent 2.3

**Box 1: The Value Chain Development Platform**

The proposed Value Chain Development Platform will provide technical support in selected value chains. It will be composed of a multidisciplinary team selected competitively from various existing technical MSME support agencies (such as CRDA, APIA, APII, CEPEX, JICA, CTAA, etc.), as well as regional development agencies (ODNO, ODCO, etc.). The platform's staff (full-time consultants) will be in charge of facilitating and managing the delivery of these services, including through the leveraging of private sector expertise as needed (individual experts and firms), and/or coordinating services offered by partner agencies (CRDA, etc.).

The platform will build on the Value Chain Development Task Force to be established

[33] Supporting commercial arrangements in which an existing and willing buyer would commit to purchasing the goods and services of a given PO, provided fulfillment of agreed upon qualitative and/or quantitative requirements, which, in turn, will require investments to be cofinanced by the project (through CP.2.3).

under CEPEX (through the Third Export Development Project – P132381), and will be contracted by the project to cover activities relating to VCs based on agricultural products. The platform will not only act as an interagency "one-stop-shop" for relevant services currently offered by these agencies to MSMEs in targeted VCs; it will also bring additional value by providing specific services that favor the development of VCs, such as advisories on market trends and specifications, the facilitation of VC-specific public-private dialogues, and the identification of needed investments in strategic common services (see Annex 7 for more detail).

**Table 2. Examples of key measures that can be supported through CP 1.2 and CP.2**

| | EXPECTED RESULTS |
|---|---|
| **Production** | • Stabilized and regulated production<br>• Provision of planning tools (sustainable planning of the productive process)<br>• Studies and assessments on production characteristics and management of production activities<br>• Established modalities for product certification |
| **Collection** | • Corpus of collection practices and techniques enhancing rapid biomass regeneration<br>• Availability of adequate equipment<br>• Regular and predictable income |
| **Processing** | • Utilization of appropriate tools<br>• Use of wadi water<br>• Control of product processing techniques<br>• Storage of products according to standard norms |
| **Marketing** | • Market free of monopolies and lobbies constraints<br>• High-quality of products (on an international scale)<br>• High demand for certification<br>• High quality packaging<br>• Better knowledge of markets and market trends |

11. Based on the proposed phased approach, preliminary support will be provided to the CDLs, GDAs and SMSAs located in the selected LUs and then to the other LUs' stakeholders. A comprehensive study of the selected LUs agricultural resources allowed the identification of the following key products to be supported by the project and key constraints related to their development (see Figure 2):

- ***Aromatic and medicinal plants (AMPs).*** Specific activities are intended to improve the professional organizational structure of these resources; provide adequate knowledge of marketing channels; enhance communication channels among stakeholders; and provide a more stable status for most practices. Key operators include: DGF, which manages large areas; local populations (for the collection and direct sales of rosemary twigs for local small-scale distillers); local intermediaries; GDAs, CSOs, MSMEs, SMSAs, or MSMEs involved in purchasing raw material, distillation operations, collecting and storing essential oils, and transforming these raw inputs into various marketable products, to be sold to exporters as well as international herbalists, retailers, and wholesalers.
- ***Forest products for consumption (FPCs)***. Project activities will support three main products in order to unleash economic potential and support concerted and legal operations in a sustainable manner: (i) Aleppo pine seeds (ii) Pinion pine seeds (whose techniques and practices (such as collecting, processing, and sales) are deeply rooted in the local economy; and (iii) different varieties of mushrooms, particularly in the Nefza,

Ain Draham, and Sejenane LUs.

- ***Agricultural products (APs).*** A range of complementary activities will be implemented to support agricultural product development, by creating substantial alternative livelihoods and contributing to the protection of biodiversity. The following products will be particularly supported: (i) olive trees (ii) ovine meat products (this dominant economic activity, well-rooted in local culture and tradition, is generating substantial income to numerous households); (iii) beef products (in areas where there is a high demand for meat, this can be produced by leaving livestock in the forest and allowing them to feed entirely from local natural resources; (iv) cow milk production. (Dairy products provide rural farmers with a way to increase assets; a method for diversification; income; and a food source); and (v) Apples and peaches. (Apple orchards (irrigated or dry) constitute a key activity for many households, while providing jobs for a significant number of unskilled workers.)
- ***Olive oil***. Olive oil marketing could be supported by identifying niche production of specific varieties to optimize the value added of oil extracted from olives. This could involve support for AOC labeling, but also small-scale pressing and bottling for the higher-income markets both in-country and abroad.

12. The project will also provide support services to MSMEs to strengthen their management and processing of agricultural products in targeted landscapes. Support will focus on the development of microenterprise business plans; organization of key partners in PAs; training and coaching of entrepreneurs; facilitation of access to finance and incentives; and technical support. Field-based analytical work has identified a minimum of 21 microenterprises that could be strengthened by the project in the targeted preliminary LUs. Tables 3 and 4 present the number and distribution of these microenterprises.

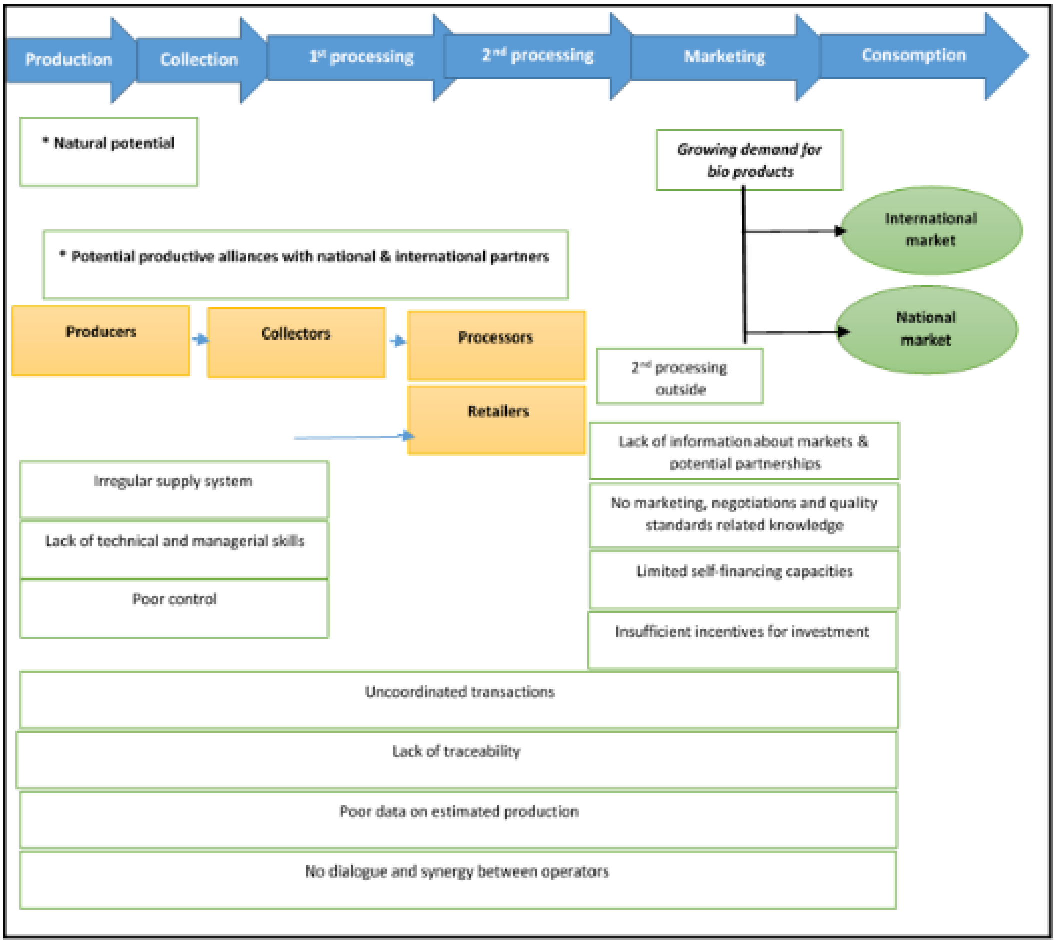
**Table 3: Microenterprises to be strengthened in the pine forest LUs**

| LUs | No of MSMEs | Households | Localities | Products to be promoted | Unit |
|---|---|---|---|---|---|
| Aïn Boussadia, Bhirine | 2 | 175 | 15 | Rosemary' EHO, dried AMP, Aleppo pine seeds, honey, carob | Bargou |
| Wassaya | 2 | 100 | 7 | Rosemary' EHO, dried AMP, Aleppo pine seeds, | Sbeitla |
| Douleb | 3 | 394 | 16 | | |
| Selta, Zoghmar | 2 | 434 | 24 | Rosemary' EHO, dried AMP, Aleppo pine seeds, honey | |
| Total | 9 | 1103 | | | 2 |

**Table 4: Main microenterprises to be strengthened in the oak grove LUs**

| LUs | Nb of microenterprises | Nb of households | Nb of localities | Products to be promoted | Unit |
|---|---|---|---|---|---|
| Choucha | 2 | 240 | 20 | Essential hop oils (EHO), mastic (oil or floral twigs) dried Aromatic or Medicinal Plants (AMP), stone pine seeds | Sejenane |
| Djebel Chitana | 2 | 154 | 13 | | |
| Bellif – Khorghalia | 2 | 328 | 24 | Essential hop oils (EHO), mastic (oil or floral twigs) dried Aromatic or Medicinal Plants (AMP), stone pine seeds, fungi | Nefza |
| Tebaba – Oued el Maaden | 2 | 67 | 10 | | |
| Atatfa-Ouled Sedra | 2 | 56 | 12 | | Aïn Draham |
| Tbainia | 2 | 354 | 20 | | |
| Total | 12 | 1199 | 99 | | 3 |

**Figure 2. Main constraints facing the development of agricultural products:**




13. Finally, the services supported under this subcomponent could include participatory approaches to: (i) providing target beneficiaries with information on growing markets and potential clients, and the opportunities and challenges they would face in developing their products with higher value-added, as well as the critical success factors required for a stronger integration into them; and (ii) assisting beneficiaries in identifying the investment needed to develop competitive advantages in these markets. The services and investments that will then be cofinanced through subcomponent 2.3 will have more incremental impacts (as shown in Figure 2).

14. ***CP1.3. Strengthening institutional and legal frameworks (US$2.5 million)***: During the preparation phase, an evaluation of the legal and institutional frameworks governing agriculture and natural resources was done and it identified key strengths and weaknesses of the MARHP. The evaluation suggested four options to reform the institutions governing natural resources and the MARHP and a working group was established to select the best option to be implemented by this project. In October 2016, the Minister of Agriculture announced a complete reform of his department which will start begin with a first phase with the forest and fishery sectors. Proposed institutional reforms are related to the likely merge of General Directorate of Forests, the *Régie d'exploitation forestière* and the ODESYPANO. Legal reforms will focus on forestry code to

enable local organizations to access and co-manage forests and rangelands resources. Thus, activities of this sub-component seek to support the government's vision of institutional reforms to strengthen the legal and institutional frameworks governing forests and rangelands resources. The sub-component will be implemented by the DGAJF in close collaboration with other concerned institutions.

15. ***CP1.3. Strengthening institutional and legal frameworks (US$2.5 million)***. During the preparation phase, an evaluation of the legal and institutional frameworks governing agricultural and natural resources identified key strengths and weaknesses of MARHP. The evaluation suggested four options for reforming the institutions governing natural resources and MARHP, and a working group was established to select the best option to be implemented by this project. In October 2016, the Minister of Agriculture announced the complete reforming of his department, which will begin with a first phase in the forest and fishery sectors. Proposed institutional reforms are related to the likely merger of DGF, the *Régie d'exploitation forestière*, and ODESYPANO. Legal reforms will focus on enabling local organizations to access and comanage forest and rangeland resources through revisions in the Forestry Code. Thus, activities of this subcomponent seek to support the government's vision of institutional reforms that will strengthen the legal and institutional frameworks governing forest and rangeland resources. The subcomponent will be implemented by DGAJF, in close collaboration with other concerned institutions.

- **Strengthening the legal framework (US$0.5 million).** Project activities will include technical assistance to: (i) analyze and propose key options for strengthening the Forestry Code, which will lead to greater community access to forests and rangelands, and will facilitate co-management of these resources through clear agreements between users and the government. Complementary activities include support for reviewing legislation that needs to be harmonized, such as the water, soils, and land tenure codes; and (ii) institutionalize and scale up the integrated landscape planning model, based on lessons learned from the landscapes supported under the project. Project activities will support specific initiatives aimed at: (i) conducting in-depth analyses of current legislation governing natural resources (the codes for forestry, water, soils land tenure, public-private partnerships (PPP), and other agribusiness-related regulations), and identifying complementarities and inconsistencies; (ii) assessing the legal soundness of the co-management model established in the 10 pilot LUs before replicating it; (iii) proposing to the government simple and viable alternatives aimed at adjusting the agricultural regulatory framework (in particular the forestry and rangeland codes), as well as key national regulations and procedures that have a direct impact on the way farmers and MSMEs participate in the decision-making process, as well as their access to finance, and their right to sustainable use of their natural resource. These activities will be implemented with support from a consulting firm.

- **Strengthening the MARHP institutional framework (US$1 million).** Specific activities to be recommended by the government working group will aim at to improve the organizational framework of the institutions governing natural resource management. One likely scenario might be the merger of DGF, the Forest Exploitation Management Unit, and the forest districts (*Arrondissements forestiers*), to create a new technical and independent forest and rangeland entity, in order to ensure better coordination, complementarity, consistency, and quality in forest management. If so, a strategic and policy directorate for forest and rangeland development would remain within MARHP. A consulting firm will be hired by the project UGO to support the implementation of these proposed activities

- **Promoting innovation through research and development** **(US$1 million).** The project will promote R&D activities to help develop new products and services that drive growth, create jobs, and improve the welfare of lagging regions. Applied research on agricultural practices that enhance productivity and adaptation to climate change and market demands for targeted products will be supported, in line with the specific requirements of the ILDPs, PAs, and VC development. The project will provide competitive grants to support those R&D activities that have the most potential to spur innovation, cluster development, and job growth. Only national research institutions, nonprofit research institutions, or other nonprofit entities legally organized in Tunisia are eligible to receive these funds.

**Component 2. Fostering sustainable regional investments (US$ 80 million)**

16. This component will provide co-financing grants to support strategic and technically feasible investments (subprojects) that emerge from ILDPs. Activities are exclusively related to forestry, agriculture and rangeland management, and small infrastructure. Investments will be provided through three windows: (i) climate-smart and sustainable agricultural investments; (ii) complementary local infrastructure investments; and (iii) agricultural products. The POM spells out funding mechanisms, eligible investments, eligible project promoters, and evaluation and performance criteria (see Box 2). The main objective is to foster sustainable regional investments and economic growth through the provision of co-financing grants. These grants will in turn finance the acquisition of goods, technical assistance, infrastructure improvement, technical studies, and training. The direct beneficiaries of this component are local communities, farmers, and their organizations. CDLs, as holders of ILDPs, will coordinate the preparation, validation, and implementation of these subprojects, through a participatory and consultative process with all eligible stakeholders: CSOs, GDAs, and SMSAs will be in charge of implementing them.

17. ***CP2.1. Climate-smart and sustainable agricultural practice (US$56 million).*** In line with the integrated landscape approach adopted by the project, and based on the selection criteria (outlined in Box 2 and POM) potential investments will be built upon the principles of sustainable agriculture, and will result in integrated and coordinated planning and management; decreased pressure on fragile lands; and increased agricultural production, income diversification, and food security. Proposed investments will include:

a. **Climate-smart agricultural management practices (US$31 million)** The project will support a variety of practices aimed at maintaining essential services provided by the ecosystems, including clean air, water, food, and materials, while contributing to the sources of income for rural households. This will include: (i) integrated soil fertility management techniques such as conservation tillage, as well as soil, water, and nutrient management; (iii) livestock husbandry and diversification; (iv) afforestation and reforestation activities; (v) rangeland seeding and natural regeneration; (vi) collection and cultivation of AMPs; (vii) thinning and pruning of forests, combined with forest fire protection and biodiversity measures; and (viii) forest and rangeland certification activities. Investments are expected to impact *(i)* ***at the local level,*** reduction in on-farm costs through savings in time, labor, and the use of mechanized machinery increase in soil fertility and retention of soil moisture, resulting in long-term yield increase; and *(ii)*

***at the national level,*** stabilization of soil, and protection from erosion leading to reduced downstream sedimentation; more regular river flows, and reduced flooding; the recharge of acquirers as a result of better infiltration). Reforestation activities carried out under this subcomponent are associated with the adoption of climate-smart agriculture, and will have global benefits in terms of the reduction of $CO_2$ emissions, as well as in terms of the conservation of biodiversity. They will also maintain essential services provided by these ecosystems. Initiatives of applied research on agricultural practices that enhance productivity and adaptation to climate change and the market demands of targeted products will also be supported, in line with specific requirements of the ILDPs and PAs. The project will also support a range of activities aimed at diversifying the local economy, including the development of ecotourism and recreational activities, and the introduction of new crop varieties and production models aimed at reducing pressure on landscapes, particularly in forest areas, as well as in addressing local employment needs.

b. **Olive tree planting (US$25 million).** By supporting the national policy of increasing olive production, the project will finance 20,000 hectares of new groves and 5,000 hectares of graftings of oleaster. The plantations, established on private lands under a contract that includes a commitment by individual farmers to land preparation, planting, and maintenance, including supplying water for a period of three years, will support the improvement of existing farming techniques and the introduction of new ones, including mobilization and water conservation, and the valorization of local varieties; the creation of modern nurseries and the rehabilitation of existing ones; and the certification, traceability, and labeling of organic products.[34]

**Box 2: Eligibility criteria of ILDPs sub-projects as per the Project Operational Manual**

1. **General criteria for beneficiaries (GDA / CSOs and private actors (MSMEs, SMSA, Producers groups, individual farmers)**
   - Any eligible actor shall be located in the selected landscapes or operating with MSMEs located there Any eligible actor shall have a valid experience in the topic covered by their proposed sub-project.
   - Any sub-project shall be prepared and submitted to the Regional Project Implementing Team (RPIT) by an eligible actor; and
   - Any sub-project shall be prepared in compliance with the relevant ILDP, the Environmental and Social Management Framework (ESMF) and the Resettlement Policy Framework (RPF).

**b) Implementation modalities**

- Any sub-project shall be related to the selected ILDPs;
- Any sub-project shall be technically assessed by CRDAs (or assigned experts in the case of investments for value chain development) and endorsed by the CDLs; and
- The total financial support to any sub-project shall not exceed the equivalent of US$ $200,000 per beneficiary and the eligible actor proposing a sub-project shall contribute in-kind (for GDA/CSO) and Financial contribution is requested for private actors with equivalent to at least thirty percent (30 percent) of the total cost of the sub-project (CP2.3).

**c) Technical validation and approval**

- Firstly: In order to be financially supported by the Project, a sub-project shall be certified by the

[34] The intent is to plant the groves in a relatively sparse way, with approximately 125 trees per hectare, so that the land on which they are established can continue to be used for extensive wheat and barley production, or as pasture land.

CDL and the CRDA to ensure that: (i) the sub-project is not on the list of ineligible sub-projects established in the POM; (ii) the land tenure status of the land under management initiatives of the sub-project is well known and accepted by the community.

- Secondly: In order to be financially supported by the Project, a sub-project shall be technically assessed by the Unit of Government Objectives (UGO) which has to determine: (i) its compliance with national technical standards; (ii) its compliance with relevant legal, regulatory and technical sectoral policies and its consistency with their framework; and (iii) its compliance with the ESMF and RPF socio-economic safeguard measures; and (iv) its sustainability

18. Preliminary proposed actions are deduced from current management plans and are described in the Table 5, 6 and 7 below. Additional investments will concern support for the implementation of seven additional ILDPs.

**Table 5. Activities for the rehabilitation and protection of the cork oak forests and related rangeland**

| | | Choucha (Séjenane) | | Chitana (Séjenane) | | Bellif (Nefza) | | Tbaba (Nefza) | |
|---|---|---|---|---|---|---|---|---|---|
| Activity type | Unit | Quantity | Cost 1000TD | Quantity | Cost 1000TD | Quantity | Cost 1000TD | Quantity | Cost 1000TD |
| **Forest and rangeland rehabilitation activities** | | | | | | | | | |
| Reforestation | Ha | 250 | 575 | 500 | 1150 | 200 | 460 | 200 | 460 |
| Maintenance of plantations | Ha | 500 | 750 | 300 | 450 | 120 | 180 | 120 | 180 |
| Installation of meadows | Ha | 250 | 250 | 375 | 375 | 200 | 200 | 100 | 100 |
| maintenance of meadows | Ha | 500 | 150 | 300 | 90 | 160 | 48 | 160 | 48 |
| Silviculture works | Ha | 500 | 250 | 500 | 250 | 500 | 250 | 320 | 160 |
| ***S/total 1 (000TD)*** | | | **1975** | | **2315** | - | **1138** | - | **948** |
| **Forests Protection** | | | | | | | | | |
| Tracks maintenance | Km | 100 | 1000 | 45 | 450 | 100 | 1000 | 20 | 200 |
| Firewalls maintenance | Km | 100 | 500 | 40 | 200 | 100 | 500 | 45 | 225 |
| Protection against diseases | Ha | 500 | 200 | 500 | 200 | 500 | 200 | 500 | 200 |
| Construction of water points | Nbre | 5 | 150 | 18 | 189 | 5 | 150 | 3 | 90 |
| Chitana National parc | Forfait | - | - | - | 364 | 5 | 364,37 | - | - |
| Mhibeus Reserve | Forfait | - | -+ | - | 250 | - | - | - | - |
| Guarding | Ha | 5000 | 200 | 4462 | 178 | 10229 | 409,16 | 3827 | 153 |
| **S/total 2 (1000 TD)** | | | **2050** | | **1831** | - | **2623,8** | - | **868** |
| **Total (1&2)** | | | **4025** | **-** | **4146** | | **3761,8** | - | **1816** |
| Equipment and coaching | | | 805 | - | 829 | | 752,3 | | 363,2 |
| **Total (1000TD)** | - | - | **4830** | - | **4975** | - | **4514,1** | - | **2179,2** |

**Table 6 (cont). Activities for the rehabilitation and protection of the cork oak forests and related rangeland in other LUs**

| | | Tbeinia (Aïn Draham) | | Sedra Atatfa (Aïn Draham) | |
|---|---|---|---|---|---|
| Activity type | Unit | Quantity | Cost 1000TD | Quantity | Cost 1000TD |
| Reforestation | ha | 650 | 1495 | 500 | 1150 |
| Maintenance of plantations | ha | 390 | 585 | 390 | 585 |
| Installation of meadows | ha | 500 | 500 | 500 | 500 |
| maintenance of meadows | ha | 400 | 120 | 400 | 120 |
| Silviculture works | ha | 500 | 250 | 500 | 250 |
| ***S/total 1 (000DT)*** | | | **2950** | | **2605** |
| Tracks maintenance | Km | 50 | 500 | 50 | 500 |
| Firewalls maintenance | Km | 60 | 300 | 125 | 625 |
| Protection against diseases | ha | 500 | 200 | 500 | 200 |
| Construction of water points | Nbre | 20 | 330 | 20 | 330 |
| Oued Ezzene National Parc | Forfait | - | 728,75 | - | - |
| Dar Fatma Reserve | Forfait | - | 250 | - | - |
| Guarding | ha | 4462 | 178,5 | 8000 | 320 |
| ***S/total 2 (1000 TD)*** | | - | **2487,25** | - | **1975** |
| **Total (1&2)** | | - | **5437,25** | - | **4580** |
| Equipment and coaching | | - | 941,7 | | 916 |
| **Total (1000 TD)** | - | - | **6378,95** | - | **5496** |

**Table 7. Activities for the rehabilitation and protection in pine forests and alfa steppes**

| Activity type | Unit | Douleb (Kasserine) | | Wassaya (Kasserine) | | Selta-Zoghmar (Sidi Bouzid) | | Bhirine-Aïn Bousaadia (Siliana | |
|---|---|---|---|---|---|---|---|---|---|
| | | Quantity | Cost 1000TD | Quantity | Cost 1000TD | Quantity | Cost 1000TD | Quantity | Cost 1000TD |
| **Rehabilitation of forest and rangeland ressources** | | | | | | | | | |
| Reforestation / regeneration Assistance | Ha | 250 | 575 | 66 | 99 | 62 | 142,6 | 508 | 1168,4 |
| Maintenance of plantations | Ha | 250 | 125 | 500 | 250 | 1000 | 1500 | 832 | 1248 |
| Rangeland and meadow Improvement | Ha | 250 | 500 | 500 | 1000 | 1000 | 2000 | 200 | 300 |
| silviculture | Ha | 3775 | 75,5 | - | - | 600 | 300 | 500 | 250 |
| Grafting | Ha | - | - | - | - | - | - | 10 | 5 |
| **S/total (1)** | | | **1275,5** | | **1349** | | **3942,6** | | **2971.4** |
| **Forests Protection** | | | | | | | | | |
| Tracks maintenance | km | 80 | 800 | 45 | 450 | 90 | 900 | 60 | 600 |
| Firewalls maintenance | km | 60 | 180 | 60 | 300 | 120 | 360 | 125 | 375 |
| Protection against diseases | ha | 500 | 250 | 500 | 250 | 500 | 250 | 500 | 250 |
| Construction of water points | Nbre | - | - | - | - | 4 | 12 | 5 | 15 |
| Mghila national parc management | Lump sum | - | - | - | - | - | 728,75 | - | - |
| Guarding | | 4000 | 160 | 4160 | 166,4 | 5000 | 200 | 7650 | 306 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **S/total 2** | | - | **1390** | - | **1166,4** | - | **2450,75** | - | **1546** |
| **Total (1&2)** | | - | **2665,5** | - | **2515,4** | - | **6393,35** | - | **4517.4** |
| Material and coaching | Lump sum | | 533,1 | - | 503,08 | | 1278,67 | - | 903,48 |
| **Total general (1000TD)** | | | **3198,6** | | **3018,48** | - | **7672,02** | - | **5420,88** |

19. ***CP2.2. Complementary local infrastructure investments (US$7 million).*** The proposed project will provide financing to upgrade investments that improve access to economic opportunities and enhance the quality of life in rural communities. This will include investments to mobilize and enhance water resources, as well as to open up isolated territories through improved infrastructure such as feeder roads, water crossings, small water reservoirs, small bridges, and culverts. Initiatives of applied research on agricultural practices that enhance productivity and adaptation to climate change and the market demands of targeted products will also be supported, in line with specific requirements of ILDPs and PAs. To the extent possible, the local participatory process will facilitate the alignment and cofinancing of complementary infrastructure with municipal and private sector development plans.

20. ***CP2.3. Fostering economic growth (US$17 million).*** This subcomponent aims to enhance access to economic opportunities and markets for intended beneficiaries primarily by cofinancing investments in PAs and VC development.

21. The project will cofinance the expansion of production capacity and/or improvement of quality, in line with identified links with buyers. Necessary technologies will be provided in order to address growing market demands. This subcomponent will primarily cofinance the POs that will be in charge of rationalizing the production process; ensuring quality control in the processing, transportation, and marketing of products; and effectively addressing the valuation and marketing of products. They will be supported in doing this under the technical assistance component (CP1.2).

22. The project will introduce a hybrid of the PA approach to help build the capacity of emerging but high-potential POs, and link them with markets beyond their immediate reach. Eligible activities will include (i) the purchase of equipment (such as tools and machines needed for collecting or processing agricultural products; and the building of packing houses, grading centers, warehouses, and cold chain facilities); (ii) advisory services regarding access to financial services, business management, market and marketing skills, quality and standard certification services, etc.; (iii) training in technical and/or managerial skills; and even (iv) needs in revolving funds for a one to two-year period when this proves to be difficult to obtain from commercial or public banks. Eligible entrepreneurs will contribute to the funding of their subprojects; copayment will depend on the size of the firm.

23. The eligible beneficiaries of this subcomponent are MSMEs and POs (e.g. CSOs, GDAs, SMSAs, and SVAs), which will be identified through a competitive process that is open to applicants who meet clear eligibility criteria, including the ability to create local jobs. The same beneficiaries will be in charge of implementing the investments selected during the participatory planning process, identified under CP 1.2. While end beneficiaries could be local farmers, microfirms, small local entrepreneurs, or reputable distribution partners who provide key services missing from the VC (e.g. logistics firms, retailers, and international exporters), and who can demonstrate the ability to help local entrepreneurs and MSMEs develop their integration in the VC, and create jobs and value-added locally, the direct beneficiaries will be

POs (e.g. SMSAs and other for-profit professional associations). The POs will be in charge of implementing the action plans selected for cofinancing.

24. Other activities aimed at catalyzing collaboration among MSMEs, including access to skills, equipment, training, or other value-added services that have been identified through the work in sub-component 1.2. and that have demonstrated incremental returns, can also be cofinanced by this subcomponent. Examples could be common services needed for beneficiaries (particularly small farmers and local firms) to reach targeted markets with higher value-added, and lower intermediation costs (increasing the value added locally). Analytical field work indicates that such activities and cofinancing options respond to strong demand. Such common services in targeted LUs could include certified quality control, packaging, product storage, and commercialization. Based on the analytical work achieved during project preparation, services could be clustered in multiple delegations including:

- Nefza (Governorate of Beja) for the following products: pinion pine seeds, essential oils, aromatic and medicinal plants (AMPs), oil of mastic, and mastic branches;
- Sejenane (Bizerte) for honey, essential oils, AMPs, and Stone pine seeds.
- Ain Draham (Governorate of Jendouba) for fungi, myrtle essential oils, and AMPs;
- Sbeitla (Kasserine) for Aleppo pine seeds, essential oils of rosemary and esparto, and processing units for cattle feed products (in combination with other agricultural products);
- Bargou (Governorate of Siliana) for essential oils of rosemary, dried herbs, AMPs, and honey.

25. The funds will be managed by CRDAs, but DGFIOP will act as the paying agency.

26. **Component 3. Project Management, Monitoring, and Evaluation (US6 million).** This component will support the establishment and functioning of the Project Management Unit (UGO) and RPITs within MARHP. It will cover (i) the equipment cost for the unit; (ii) project audits; and (iii) incremental operating costs through the provision of goods, consultant services, and training.

27. As the governmental executing agency, UGO’s main responsibilities include: (i) project coordination, administration, and management; (ii) technical implementation of all components; (iii) overall fiduciary (i.e. financial and procurement) and safeguard management; (iv) project M&E; and (v) project reporting and auditing. Proceeds of the loan supporting the project will be made available to UGO and participating CRDAs by the Government of Tunisia through budgetary allocations.

**Table 8: Characteristics of Selected Landscapes Units**

| Criteria / Characteristics | JENDOUBA | | BIZERTE | | BEJA | |
|---|---|---|---|---|---|---|
| **Location** | **Tbeinia-Oued Ezzen-Chihia** | **Atatfa-Babouche** | **Massif (Djebel Chitana,** | **Tamra & Choucha)** | **Bellif & Khor Ghalia** | **Tebaba** |
| Area (ha) | 12610 ha | 10466 ha | 7281 | 7153 | 11910 | 8592 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Forest (ha) | 10346 | 8426 | 6489 | 5236 | 10234 | 5224 |
| % of the forest of the region | 9 | 7 | 6 | 5 | 8.5% | 4.3 |
| Ecologic importance | Park Oued Ezzen<br>Béni Mtir dam | Dar Fatma reserve ; Zerga dam (wadi El Kébir) ;  El Moula dam | Park Cap Negro<br>Sejenane dams | Sejenane dam | Sidi El Barrakh<br>Park Cap Negro | Didi El Barrak dam |
| ***Ecologic vulnerability*** | | | | | | |
| Deforestation | 93 ha/year | 69 ha/year | 39 ha /year | 24 ha/year | 8 ha /year | 2.6 ha/year |
| Fire | 10 ha/year | 8 ha/year | 22 ha /year | 14 ha/year | 23 ha/year | 7.8 ha/year |
| Total lost economic value /year | 31209 TD | 23331 TD | 18483 TD | 10605 TD | 9393 TD | 3151 TD |
| ***Socioeconomic vulnerability*** | | | | | | |
| Population | 2014 : 5476 inhabitants (1592 hhds): decline 28% inhabitant since 2004. | 10929 inhabitants (2992 hhds), i.e., since 2004 a decline of 2327 inhabitants (17%) | 8383 inhabitants (2156 hhds), of which 83% active | | 14.233 inhabitants (3733 hhds) of which 78 active | |
| Unemployment rate | 26% (against 19% at national level) | | 27.5% (against 19% at national level) | | 15% (against 19%  at national level)) | |
| Poverty rate | 12.5% (against 15,5% (at national level) | | 25% (against 15,5%  at national level) | | 17% against 15,5% at national level)) | |

| Criteria / Characteristics | JENDOUBA | | BIZERTE | | BEJA | |
|---|---|---|---|---|---|---|
| **Location** | **Tbeinia – Chihia** | **Atatfa Babouche** | **Chitana,** | **Tamra et Choucha** | **Bellif** | **Tebaba** |
| Prospective potential /year | Timber (10.000 m3) ; Cork (800T) ; Pinions (0.7T) ; Mushrooms (10T) ; Myrtle 2836T twigs : 1418l oil) ; Lentisque (53170T branches and 1063l oil) | Timber (7748m3) ; Cork (775T) ; Myrtle (2246 T twigs et 899 l oil) ; Mushrooms (6.7T) ; Pinions (0.5 T) ; Lentisque (3372T branches : 674 l oil) | Timber (5602m3) ; Cork (133 T) ; Pinions (5 T) ; Mushrooms (6.5 T) ; Myrte (1730T twigs) et 865 l oil) ; Lentisque (3244T branches et 648 l oil | Timber (3507m3) ; Cork (54 T), Pinions (1,8 T), mushrooms (4,4 T) ; Myrtle (1192 T twigs) and 596 l oil ; Lentisque (2235T branches and 447 l oil) | Timber (7900m3 ; Cork (5569 T) ; Pinions (7,3 T) ;Mushrooms (10 T) ; Myrtle (2640 T twigs 1320 lit oil) ; Lentisque (4950T branches and 990 l oil) | Timber (2634m3) ; Cork (144 T) ; Pinions (2,8 T) ; Mushrooms (4.8 T), Myrtle (1293 T twigs and 647l d'huile) ; Lentisque (2425T branches and 485 l oil) |
| Recurring costs for par la DGF (DT/yr)* | 638195 | 714705 | 1082052 | 834038 | 827331 | 422272 |
| Forest works and afforestation | 132775 | 108569 | 397975 | 306756 | 234268 | 119571 |
| Works for conservation & protection | 505420 | 413277 | 219336 | 169062 | 451917 | 230660 |
| Guarding | 233859 | 192859 | 464742 | 358220 | 141145 | 72041 |

| Criteria / Characteristics | SILIANA | KASSERINE | | SIDI BOUZID |
|---|---|---|---|---|
| **Location** | **Ain Boussadia-El Bhirine** | **Douleb** | **Ouessaia** | **Selta-Zoghmar** |
| Area (ha) | 10854 ha | 8100 | 9715 | 12390 |
| Forest (ha) | 7297 | 5114 | 2940 | 3200 |
| % of forest of the region | 5.5% | 3.7% | 2% | 15% |
| Ecological importance | Park Djebel Esserj<br>Lakmes Dam | | | Natural park |
| ***Ecologic vulnerability*** | | | | |
| Deforestation | 7ha/year | 10 ha/year | Forest 13 ha/an ; Alfa 10 ha/year | 27 ha /year |
| Fire | 15 ha/year | 29 ha/year | 51 ha/year | |
| Total lost economic value /year | 4334 **TD**/year | 7863 **TD**/year | Forest: 10047 **TD**/year<br>Alfa 1310 **TD**/year | Forest 5319 **TD** |

| *Socioeconomic vulnerability* | | | | |
|---|---|---|---|---|
| Population | 12482 inhabitants INS 2014 of which 60% rural | 3653 inhabitants INS 2014, 100% rural | 4555 inhabitants INS 2014, 100% rural | 6022 inhabitants INS 2014 against 5529 in 2004 |
| | 12% estim. in 2012 | 21% estim. in 2012 | | 20% estim. in 2012, 1 point higher than national average |
| Poverty rate | 15% estim. in 2012 | 30% estim. in 2012 | | 36% estim. in 2012 twice higher than national average |

| **Criteria / Characteristics** | **SILIANA** | **KASSERINE** | | **SIDI BOUZID** |
|---|---|---|---|---|
| **Location** | **Ain Boussadia-El Bhirine** | **Douleb** | **Ouessaia** | **Selta-Zoghmar** |
| Prospective potential /year | Timber (1889 m3) ; Zgougou (07T) ; Rosemary (720 T twigs and 720 lit oil ; Carobs (24 T) | Timber (1635 m3); Zgougou (10 T) ; Rosemay (twigs 429T, oil 429 Lit/yr) | Timber (1125 m3) ; Zgougou (6T) ; Rosemary (204T twigs and 294 lit. oil) ; Alfa (500 T) | Timber (1500m3) ; Zgougou (8 T) : Rosemary (320 T twigs and 320 lit. oil ; Alfa (500 T) |
| Recurring costs for par la DGF (DT/yr)***** | 121692 | 191826 | 131215 | 129720 |
| Forest works and afforestation (TD) | 115880 | 44402 | 30372 | 60630 |
| Works for conservation & protection (TD) | 81773 | 83066 | 56820 | 21150 |
| Guarding (TD) | 81763 | 64358 | 44023 | 47940 |

**Table 9: Examples of Investments**

| **1. FOREST AREAS** | **DESCRIPTION** |
|---|---|
| ***Plantations and afforestation*** | Forestry plantations (extension of cover) |
| | Plant protection (extension of cover, fixation of banks, soils, and irrigated perimeters); (Water and Soil Conservation, WSC) |
| | Shelter-belt plantations |
| | Fodder plantations |
| | Cactus plantations |
| ***Natural regeneration*** | Pins d'Alep/pine tree (rehabilitation of habitats, improvement of understory vegetation) |
| | Cork |
| ***Resting areas and no-go areas*** | Natural regeneration |
| | Reduction of grazing areas and restriction concerning use rights |
| ***Orchards, seeds, nurseries*** | Conservation of genetic stocks |
| **2. RANGELANDS** | |
| ***Natural regeneration of rangelands*** | *Artophytum sp.* |
| | Alfalfa |
| | Artemisia |
| | *Anthyllis sericea* |
| ***Pastoral plantations*** | *Acacia spp*., *Atriplex sppp*. et *Medicago arborea* |
| ***Rangeland management*** | Participatory management of rangelands and protection of degraded areas |
| ***Agro-forestry systems*** | Increased land productivity and fertility<br>Plantation of fruit trees |
| ***Improved livestock genetic resources*** | |
| **3. AGRICULTURE** | |
| ***Protection agricultural parcels*** | Agricultural initiatives to reduce pressure on forest areas |
| ***Arboriculture*** | Olive tree plantations |
| **4. FORETRY INFRASTRUCTURE** | |
| ***Forest tracks*** | Tracks and access roads |
| ***Prevention of forest-fire*** | Fire- break trenches |
| | Watchtowers |
| | Water reservoirs |
| | Forest stations |
| | Parcel units |
| ***Works*** | Bank fixation |
| | Fixation of watersheds |
| | Access to water (for communities living in remote areas) |
| | Road plantations |
| | Water points and systems to efficient conservation of soil humidity |
| **5. MANAGEMENT OF NATURAL RESOURCES** | |
| ***Wildlife*** | Protection of wildlife |
| ***Biodiversity*** | Wildlife control infrastructures and equipment |
| ***Protection*** | Fences of irrigated parcels |
| **6. SUPPORT TO PRODUCTS DEVELOPMENT** | |
| ***Essential oils*** | Medicinal and aromatic plants, such as: (*Pistacia lentiscus*), |
| | *Myrtus communis* and *Rosmarinus officinalis* |
| ***Food products*** | *Terfezia claveryi* |
| | *Capparis spinosa* |
| | *Pinus pinia* |
| | *Pinus halepensis* seeds |
| | Honey |
| | *Ceratonia siliqua* |
| ***Handicraft*** | Basketware and wickerwork from *Ampemodesma mauritanica* |
| ***Products of hunting*** | Game |
| | Snails |

## Annex 3: Implementation Arrangements

### Project Institutional and Implementation Arrangements

1. The implementing agency for the project is the Ministry of Agriculture, Water Resources, and Fisheries (MARHP). MARHP will ensure fiduciary management and procurement for overall project activities. The project will use and build on the ongoing institutional arrangements of the Second Natural Resources Management Project (P086660). Day-to-day implementation of the project's activities will be carried out through the MARHP General Directorate of Funding Investments and Professional Organizations (DGFIOP), which will host a project-implementing unit (UGO). UGO will be responsible for project implementation, management, monitoring and evaluation (M&E), and coordination.

2. A National Steering Committee (COPIL) will ensure the coordination of the project with other projects focusing on lagging regions, including those under preparation with the World Bank. The Regional Council (RC) will facilitate the coordination, harmonization, and complementarity with other projects. At the delegation level, which is also the landscape level, Local Development Councils (CDLs)[35] will ensure coordination and technical monitoring of ILDP elaboration and implementation through GDAs, SMSAs, and other stakeholders.

3. The roles and responsibilities of the key implementing institutions are detailed below.

### At the National Level

4. ***A National Steering Committee*** **(**COPIL), chaired by the Minister of MARHP, will be made up of stakeholders including: The Ministry of Development, Investment and International Cooperation (MIDCI), the Ministry Finances; the Ministry of Commerce and Industry, the Ministry of Local Affairs and the Environment, as well as the presidents of the CDLs and CRDAs located in the selected regions, and representatives of GDAs and SMSAs. COPIL is the body supervising and validating project activities. It will provide validation of the updated versions of the Project Operational Manual (POM); annual work plans, budgets, and progress reports; and will ensure that the project adheres to sectoral policies and the requirements for government programs. It will meet at least twice a year, and whenever deemed necessary by the chair. The costs of committee meetings will be covered by the project (Component 3). This committee has been created by the minister in charge of agricultural decisions, dated January 2017.

5. ***Project Implementing Unit (UGO)***. The UGO, hosted in DGFIOP under MARHP, will be responsible for overall project management and coordination, as well as the M&E of project activities, in close collaboration with CRDAs. Specifically, the UGO would: (i) carry out procurement procedures as needed at the national level; (ii) manage the project's special accounts; (iii) manage the M&E system at the national level, including safeguards; (iv) prepare consolidated annual work program and budgets; (v) coordinate and consolidate procurement and financial management reporting; and (vi) coordinate and consolidate periodic progress reports on project activities.

6. Specifically, the UGO will be responsible for the following:

[35] http://www.cnudst.rnrt.tn/jortsrc/1994/1994f/jo06094.pdf

i. preparing consolidated financial management and accounting activities in compliance with public accounting principles;

ii. preparing periodic consolidated reports related to physical data on progress in project implementation, and financial data on disbursements (by component and by category), as well as on commitments of the World Bank, and other budgetary resources;

iii. consolidating data supplied by CRDAs, and producing annual consolidated financial statements and half-yearly interim financial statements;

iv. sending copies of these documents to the DGFIPO Director, who will be responsible for forwarding them to the World Bank through MIDCI and COPIL within 45 days of the end of each calendar semester;

v. furnishing a single biannual (every six month) interim unaudited financial report (IUFR) for the entire project; and

vi. maintaining a financial management system that is acceptable to the World Bank, and in compliance with World Bank procedures for awarding contracts, disbursements, and financial monitoring.

7. UGO will be made up of 10 qualified staff, seconded by the government and selected on the basis of TORs agreed upon with the World Bank. This will include:

- One director, who will coordinate overall project activities;
- The Fiduciary Department will consist of five full-time staff: a deputy director; a procurement specialist, a financial management specialist, an M&E specialist; and an environmental and social safeguards specialist;
- The Technical Department will consist of four full-time staff: a deputy director; a forestry-pastureland specialist; a territorial development specialist; and a specialist in olive production.

8. UGO will supplement its capacity with qualified consultants hired by the project as needed.

**At the Regional Level**

9. ***Regional Agricultural Development Commissions (CRDAs).*** The CRDAs of the MARHP are the key implementing institutions for project activities at the governorate level. The CRDAs of the eight targeted governorates [36] will host within their Departments for Afforestation and Soil Protection (DRPS), a RPIT that will prepare annual work programs and budgets and submit them to UGO for approval. RPITs are responsible for implementing work programs and monitoring budgets, for M&E project activities, and for ensuring proper compilation of supporting documentation for payments to service providers and entrepreneurs in the regions. They will closely coordinate their efforts through DRPS, which is responsible for landscape management and forestry at the CRDA level.

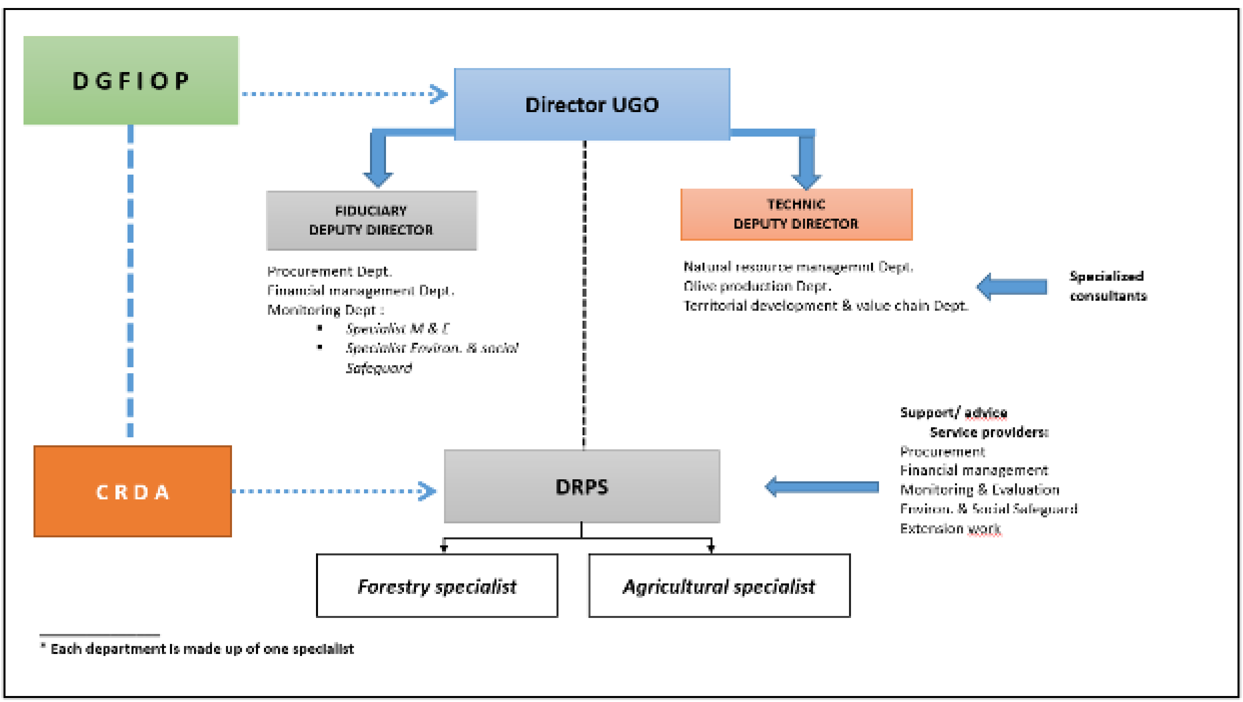
[36] The governorates of Beja, Jendouba, Kef, and Siliana in the Northwest Region; the governorates of Kairouan, Kasserine, and Sidi Bouzid, in the Center-West Region; and the governorate of Bizerte.

10. The Director General of the CRDAs will hold periodic meetings with the participation of the DRPS and RPIT to: (i) review annual work plans and budgets, including results and progress reports; (ii) evaluate progress achieved with respect to expected outcomes and specific objectives; and (iii) facilitate execution of the project by coordinating activities and mobilizing appropriate specialists and partners in developing ILDPs.

11. In each CRDA, the head of DRPS will coordinate project-related activities. The RPIT will be made up of a forestry specialist and an agricultural production specialist, seconded by CRDA on the basis of TORs agreed upon with the World Bank. When necessary, the project will hire consultants in outreach and participation, procurement, financial management, M&E, and environmental and social safeguards.

12. RPIT will provide technical assistance and advice to beneficiaries in developing their ILDPs and annual programming, as well as in implementing various project activities, including M&E. Other activities include: (i) mobilizing all stakeholders; (ii) supporting the elaboration of ILDPs; (iii) developing annual programs; (iv) preparing and signing contracts with community representatives; and (v) gathering essential data for the M&E of project-related activities and ILDP implementation.

13. The head of DRPS will coordinate the project activities in each CRDA. He or she will be responsible for entering financial data and for periodically sending to the UGO all project documentation and implementation progress reports, following approved information transmission procedures.




14. ***Regional Councils (RCs).*** In each governorate, the RC is a formal body responsible for harmonizing the contents and partnership arrangements proposed in the ILDPs. The RC reviews the ILDP and facilitates the partnerships with other development institutions and stakeholders. The RC is headed by the governor and is composed of the governor, elected representatives of the Chamber of Deputies, presidents of municipal and rural councils, unit chiefs of other

administrative services, and representatives of technical, economic, social, cultural, and educational institutions. The RC meets four times a year for this purpose, and is responsible for mobilizing partnerships for the project and for ensuring that its activities and programs are coherent with those of other local and regional partners.

**At the Local level**

15. ***Local Development Councils (CDLs)*** are formal consultative bodies that review and discuss local economic and social development priorities, local development programs, and projects within their area of the delegation. The CDLs (i) mobilize local partners and find additional funding for the project at the local level; (ii) validate ILDPs and annual contracts (ACs), ensuring consistency with development priorities; and (iii) supervise and monitor the implementation of ILDPs and ACs. Reviews and discussions are held in working meetings with participants that include representatives of the local population, the private sector, government, and nongovernment partners affected by the project. The CDLs are headed by the delegate (head of the administrative unit) and are composed of delegates nominated by the governor, presidents of communes, councils of the delegation, administrative section chiefs, and representatives of regional technical services, including the CRDAs.

16. ***Civil Society Organizations (CSOs) and Agricultural Development Groups (GDAs)***. CSOs and GDAs are associations of interest groups that play a key role in facilitating the development of agricultural and diversification activities, and in representing their communities within the framework of the project. They will implement specific subprojects developed and approved under the ILDPs that are related to production systems, forest and rangeland co-management, and the fostering of agricultural and nonagricultural products. They will also serve as the interface between the populations involved in the ILDP process and the RPITs in the CRDAs, and will be the institutional channel through which the RPITs initiate dialogue with local populations. When necessary, the project will support the creation of CSOs and GDAs in selected landscape units, e.g. for the new LUs to be identified. GDAs and CSOs will be supported with training and logistical support to help them participate effectively in the preparation and implementation of the ILDPs.

17. ***Micro, small and medium enterprises (MSME),*** including Mutual Societies for Agricultural Services (SMSAs) will be supported to help them improve the processing of local products, reinforce marketing and commercialization activities, and improve market access, and develop ecotourism activities. The project will also facilitate the achievement of commercial arrangements between local POs and existing national or international buyers, and will include support for assistance in formalizing associations, preparing applications for project funding, or accessing microfinance resources through the banking sector or specialized institutions.

**Technical implementation of project activities**

***18. The General Directorate of Forests (DGF)*** of MARHP will implement technical activities related to CP1.1, i.e. information management and knowledge creation. DGF has prepared related TORs and bids, and will issue all the documents needed to implement this set of activities, while UGO will ensure the procurement process.

19. ***The General Directorate for Legal Affairs and Land Use (DGAJF)*** of MARHP will implement technical activities related to the revision of institutional and legal frameworks, and

their implementation. DGAJF will prepare TORs and bids, and all the documents needed to implement the proposed activities, while UGO will ensure the procurement process.

20. ***CRDAs*** will coordinate the implementation of technical activities related to CP1.2 and CP2 according to the community procurement principles of the POM. These are described in detail in the proposed procedures for each of the project components, which are to be implemented with the participation of the community, including the modality of technical support to POs and beneficiaries, communication processes, selection processes and eligibility criteria, M&E, and the flow of funds.

21. With support from CRDA-concerned services, RPIT will prepare TORs and bids to hire the consultants and/or firms that will provide technical assistance to local stakeholders, in order to improve effectiveness in the planning, and enhance participation in the elaboration, implementation, and M&E of ILDPs.

22. ***CDLs*** will ensure coordination and monitoring of ILDP implementation through GDAs, MSMEs, and SMSAs. *CDLs* will: (i) hold regular consultations with GDAs, SMSAs, and CSOs, as well as with the deconcentrated technical services, and will encourage a range of initiatives aimed at consolidating and strengthening local actors, particularly among youth and women, concerning local priority interests; and (ii) hold biannual meetings open to the general public, to examine and evaluate the implementation of ILDP and related activities, and report all project activities through written reports and other appropriate supports. ILDP implementation will be achieved through GDAs for community and nonprofit activities, and SMSAs for agricultural resource development market activities. To better support the GDAs and CSOs, on the one hand, and to monitor ILDP implementation on the other hand, the project will enhance GDA and CSO technical and managerial capacities in fiduciary management, and in community development and participation approaches.

23. In order to allow the local population and private actors to co-manage forest and rangeland resources, a phased approach was agreed on with MARHP. In the first phase, a co-management model, Community Forestry and Rangeland Management Agreement (CFRMA), which defines the roles and responsibilities of the forestry administration and local communities (e.g., forestry user groups), will be signed between DGF and concerned GDAs. To this end, the Minister of Agriculture has issued a decision authorizing the local population to access and use natural resources in project-selected landscapes. Co-management will be thus piloted during the first two years of the project in the 10 selected LUs. The second phase will roll out the co-management of forests and rangelands in the entire Northwest and Central-West Regions. MARHP is committed to improving the Forest Code, as requested under the new Five-Year Development Plan, but wants to benefit from lessons learned before a national roll-out to field-test the model. During the pilot phase, provisions to improve the Forestry Code will be developed based on an in-depth review of the legal framework governing natural resources (see subcomponent 1.3).

24. ***Complementary local infrastructure investments (CP2.2)*** The CRDAs will coordinate implementation of investments identified in the ILDPs that aim to mobilize and enhance water resources, and open up isolated territories through infrastructure improvements such as feeder roads, water crossings, small water reservoirs, culverts, and small bridges.

**Financial Management and Disbursements**

25. **Introduction.** As part of the preparation activities of the project, and following the World Bank's OP 10.00, the financial management (FM) team carried out a desk FM assessment of DGFIOP, and an on-site assessment of the CRDA of Jendouba, and the Forestry Unit at the CRDA of Beja, along with selected GDAs in Beja (Tabouba and Oued Maaden). This assessment was completed during appraisal by an on-site visit to DGFIOP. The main objective of the assessment was to determine whether the FM arrangements proposed for the project provide reasonable assurance that the loan proceeds will be used for the purposes intended, and with due attention to considerations of economy and efficiency.

26. The FM team concluded that, while the proposed arrangements are generally acceptable, there are areas for improvement, and several mitigating measures will have to be put into place to ensure smooth implementation.

27. **Executive Summary.** The project design is complex, and entails the participation of several implementing institutions at the national (MARPH) and regional levels (eight participating CRDAs), with mixed fiduciary capacities and experience. MARHP, through DGFIOP, will be responsible for overall project fiduciary oversight, including FM and disbursement arrangements. Additionally, the participating CRDAs will be in charge of implementing a series of activities under Components 1 and 2 of the project, and will therefore also perform some FM activities. The desk assessment revealed a number of weaknesses and risks that need to be addressed in order to ensure a solid fiduciary environment for smooth project implementation, namely: i) DGFIOP handles the implementation of a number of investment projects with a limited number of ministry staff. Adding a new project to its current scope of work will create a heavy workload that could have a negative impact on efficient project implementation, monitoring, and coordination; ii) at the CRDA level, FM capacity, including among FM staff, is weak, as they are not familiar with the World Bank's FM and disbursement procedures; iii) there is need for an integrated project information system that will support project accounting and financial reporting at both the national and regional levels, and will ensure proper tracking of project funds as well as timely production of consolidated financial reporting to facilitate effective project management decision making.

28. In order to mitigate identified risks and weaknesses, a number of measures will be put into place before project effectiveness. These measures have been discussed with the client and agreed upon during project negotiations. Broadly, they include: i) the creation of a dedicated project implementing unit (UGO) at MARHP, with a Fiduciary Department that will include a fully dedicated Financial Management Specialist (FMS). Additionally, each participating CRDA will be staffed with a dedicated person in charge of accounting, disbursement, and financial reporting matters; ii) an Integrated Information System to monitor project activities at MARPH and CRDA level will be implemented before project effectiveness. This system will include a financial module, and must allow for the production of single and consolidated annual and semiannual project financial reports. It was agreed that the project will use the Monitoring, Evaluation and Implementation of Public Projects system (*Système de Suivi et d'Evaluation de l'Exécution des Projets Publics*) developed by CNI; iii) the POM will include detailed accounting, disbursement, and financial reporting procedures, responsibilities, and deadlines. It will also describe in detail the responsibilities and interactions between UGO at MARPH and project fiduciary staff at the CRDA level; and iv) trainings on the World Bank's FM and disbursement matters will be delivered to FM staff at both the national and regional levels on a periodic basis.

**FM issues to be addressed**

29. The project will make wide use of the Tunisian public FM systems, particularly the procedures for budget preparation, execution, control, and monitoring; the accounting, recording, and reporting procedures; and external audit arrangements. The results of the Public Expenditure and Financial Accountability (PEFA) assessment carried out in 2015[37] show that the legal and administrative framework for public FM is sound, and offers a solid level of assurance regarding reliability of information, as well as a strong control environment. However, there is still room for improvement in transparency and accountability. The main findings of the PEFA assessment applicable to the project are summarized below:

- ***Budget reliability.*** The results of the PEFA assessment on the budget reliability dimension show that budget execution stays close to the initial provision and important changes to the initially approved budget are done in a transparent manner through a modified appropriation act. The aggregate budget execution data and the initial budget are set out in the *Official Gazette*, which is published on the Ministry of Finance website annually. A final settlement account (*Loi de Règlement*) is also prepared on an annual basis, and then transmitted to the Court of Accounts for audit. The audited version of the *Loi de Règlement* is then transmitted to parliament to be voted on.
- ***Comprehensiveness and transparency of public finance***. Contrary to the results of the previous PEFA exercise carried out in 2009, the information provided in the annual budget lacks comprehensiveness, which could translate into a lack of transparency as well. The main limitation on the comprehensiveness and the quality of budget document is that public financing for EPAs and donor funded projects are reported on a much aggregated manner. Furthermore, a significant share of the EPAs' administrative operations, as well as of extra-budgetary special treasury funds, remain unreported. Also, the budget classification system does not allow for a clear distinction between functional and economic classification of public expenditures. Great efforts have been made by the government with regard to creating budget transparency.
- ***Policy-based budgeting***. A major deficiency in the area of budget preparation continues to be the lack of a formal medium-term fiscal framework (MTFF) to guide the government's strategic plan. However, this is not a great constraint, given the fact that as part of the ongoing performance-based budgeting reform (PPB), a multiyear expenditure programing using the MTFF has been tested in those ministries that are part of the PPB pilot. Furthermore, the Budget Organic Law, which was validated by the inter-ministerial council in November 2015, and has been recently sent to parliament for approval, introduces changes in the results orientation of the budget process; the use of multiyear expenditure programing; and compliance of the government's accounting procedures with international standards.
- ***Predictability and control in budget execution.*** Regarding the predictability of in-year resource allocation of the budget, the PEFA assessment reveals that on the whole, budgetary units receive timely and reliable information on the availability of funds so that

[37] This assessment was prepared under PEFA framework 2015. The report is a joint effort between the World Bank, the European Union, and the African Development Bank. The final PEFA report was disseminated to the Government of Tunisia in a workshop held in May 2016.

they can control their commitments and make payments for nonfinancial assets, goods, and services leading to effective service delivery and execution of the budget in accordance with work plans.

- ***Accounting, Recording, and Reporting*.** The quality and comprehensiveness of financial reporting remains limited. This is mainly due to delays caused by long supplementary budget periods and difficulties in tracking direct payments from external donor-funded operations. Although theses weaknesses could be rapidly rectified under the current PFM system, the major challenge is to ensure proper management and monitoring of government assets and liabilities.
- ***External scrutiny and audit*.** The change in political regime has greatly increased the role of the Parliament and the public given to the external audit of public funds by the Court of Auditors. In addition to improving the timeliness of the reports and their closer attention by the executive, the main areas of progress remaining under the PEFA criteria are publicity through control bodies and, more broadly, transmission to Parliament of the reports of the bodies and authorities of control so that it seizes it.

**Risk Assessment and Mitigating Measures**

30. On the basis of the assessment of inherent and control risks affecting the operation, and after considering the implementation of a number of mitigating measures agreed upon with the borrower, the overall financial management residual risk is deemed Moderate.

31. **Inherent Risks *(Country, Entity, and Project risks)***. While the project will make wide use of the Tunisian public FM systems, which according to the PEFA 2015 offer a strong control environment and a solid level of assurance regarding reliability of information, there are particular characteristics related to the nature and complexity of the project, as well as to the fiduciary capacity and experience of MARPH and the CRDAs, that make the inherent risk profile for this operation substantial.

32. The project will be implemented by MARPH, which is a solid institution with sound experience in the preparation and implementation of investment projects financed by International Financial Institutions (IFIs). DGFIOP, within MARPH, has been designated as the directorate in charge of overall project fiduciary oversight, coordination, and implementation. While DGFIOP has wide experience with World Bank-financed operations, as it has implemented the Second Water Sector Investment Project (PISEAU II) (P095847), and is currently implementing the Tunisia Second Natural Resources Management Project (PGRN2) (P086660 & P112568), the current organizational structure may not be appropriate for the needs of this project. For one thing, DGFIOP already handles the implementation of a number of investment projects with a limited number of ministry staff: adding a new project to its current workload could have a negative impact on project implementation and coordination.

33. Finally, the project design is complex and entails the participation of several implementing institutions at the national and regional levels, with mixed levels of fiduciary capacity and experience. While the project financial management oversight will be centralized at the DGFIOP level, there are a number of FM activities that will be handled at the CRDA level. CRDAs have mixed levels of FM capacity: some of them have already implemented World Bank projects, and some of them have no prior experience in the administration of World Bank funds. This implies a considerable level of complexity in terms of operational control.

34. A number of measures have been agreed upon with the client to mitigate these risks. The client has already started to implement the measures discussed, and it is intended that this process will be finished by project effectiveness. These measures are:

- **(i)** A dedicated project UGO, hosted in DGFIOP, will be created by decree. This UGO will have technical and fiduciary staff, including a financial management specialist (FMS), and will monitor the release of funds, as well as their use and a reporting of expenditures. Additionally, each participating CRDA will be staffed with a dedicated person in charge of accounting, disbursement, and financial reporting matters at the regional level;
- **(ii)** Capacity building on World Bank FM and disbursement matters for administrative and finance staff, within UGO at MARPH, as well as within each participating CRDA, will be delivered;
- **(iii)** An integrated information system to monitor project activities at both the MARPH and CRDA levels will be implemented before project effectiveness. This system will include a financial module, and will allow for the production of single and consolidated annual and semiannual project financial reports. It is intended that the project use the Monitoring, Evaluation and Implementation of Public Projects system (Système de Suivi et d'Evaluation de l'Exécution des Projets Publics) developed by CNI;
- **(iv)** A POM that includes detailed accounting, disbursement, and financial reporting procedures, responsibilities, and deadlines has been developed by MARPH in coordination with the participating CRDAs. The POM also describes in detail the responsibilities and interactions between UGO at MARPH and the project fiduciary staff at the CRDA level;

35. **Control Risk *(budgeting, accounting, internal control, funds flow, financial reporting, and auditing)***. The residual control risk profile for this operation is Moderate. The major control risks identified are: i) at the CRDA level, weak capacity to monitor project commitments and budget execution within a reasonable time frame in order to avoid budget overruns and to be able to identify significant variations from the initial budget in a timely manner; ii) at both the MARPH and CRDA levels, lack of an accounting system that allows for proper recording of project financial information; iii) expenditures financed under external resources follow a separate track at the payment request and payment issuance stages of the national spending process, as they are handled by the Central Bank of Tunisia (CBT) and paid from a designated account (DA). This may represent a risk regarding the proper control of expenditures processed at the CRDA level, as there is lack of knowledge on World Bank disbursement procedures and requirements. It may also have an impact on the timely payment of service providers and/or subproject beneficiaries; iv) challenges in the preparation of consolidated project financial statements, and delays in their submission to the World Bank; and v) delays in the submission of audited annual project financial statements.

**36.** A series of mitigating measures have been agreed upon with the client, and will be put into place before project effectiveness. These measures include: i) recruitment of an FMS at each participating CRDA; ii) installation of the Integrated Information Systems the national level, and also at each participating CRDA; iii) the total cost of the project will be registered under the budget law (*Loi de Finances*) for 2018, and specific budget lines with indicative envelopes will be allocated to each participating CRDA. The table below summarizes significant FM risks identified during the desk assessment, and the measures proposed to address them.

| **Risk type**[38] | **Risk Rating** | **Comments/risk mitigating measures (MM) incorporated into Project design** | **Residual Risk Rating subject to agreement by the client on the implementation of MM** |
|---|---|---|---|
| **Inherent risk** | **S** | | **M** |
| Country level | M | The Public Expenditure and Financial Accountability diagnostic 2015 (PEFA 2015) concluded that the legal and administrative framework for public financial management in Tunisia is sound, and offers a solid level of assurance regarding the reliability of information. Overall, the budgetary process is reliable and there is a strong control environment. Nevertheless, there are transparency and accountability failures that still need to be addressed. The government of Tunisia has embarked on a series of public financial management reforms that aim to improve transparency and accountability, including a results-based budget, accounting reform, a treasury single account, a new organic budget law, etc. | M |
| Entity | S | **IR** - MARHP, through DGFIOP, handles the implementation of a number of investment projects financed by IFIs, including the PGRN2. DGFIOP hosts a limited number of ministry staff, including technical and fiduciary specialists. Adding a new project to DGFIOP's scope represents a heavy workload that could have a negative impact on the smooth implementation and coordination of the project. Additionally, Component 2 of the project will be largely implemented primarily by eight participating CRDAs, which have weak financial management capacity.<br>**MM** – to mitigate this risk a dedicated project implementing unit (UGO), hosted in the DGFIOP, would be created. This UGO would have technical and fiduciary staff, including a financial management specialist. Additionally, each participating CRDA would be staffed with a dedicated person in charge of accounting, disbursement, and financial reporting matters. | M |
| Project | S | **IR** – Project design is complex and entails the participation of several implementing institutions at both the national and regional levels, with mixed fiduciary capacity and experience. There is a risk of coordination issues between the national and regional levels, as it is expected there will be a large volume of contracts and payment transactions.<br>**MM –**<br>i) A strong FM team, including FM staff at both MARPH and the participating CRDAs will be put into place. This team will monitor the release of funds, their use, and the reporting of expenditures.<br>ii) An M&E system, including a module for FM, will be put into place at MARPH and at each participating CRDA, to support project financial transactions and the generation of financial information. This will allow for proper project financial follow-up and monitoring.<br>iii) A Project Operational Manual (POM) will clearly define financial management responsibilities and reporting requirements. | M |
| **Control risk** | **S** | | **M** |
| Budgeting | S | **CR** - Weak capacity at the CRDA level to monitor project commitments and budget execution within a reasonable time frame in order to avoid budget overruns, and also to be able to identify significant variations from the initial budget in a timely manner.<br><br>**MM** - The following mitigating measures have been envisaged to help minimize budgeting risks:<br>i) There will be specific budget lines for the project at the MARHP level, and also at each participating CRDA level;<br>ii) UGO will be responsible for overall budget oversight and monitoring. To that end UGO will have access to the budget system used by each CRDA, the ADEB EPA system;<br>iii) The new information system will allow for the recording of information at both the national (MARPH) and regional levels (CRDAs); | M |

[38] The **inherent FM risk** is that which arises from the environment in which the project is situated. The **FM control risk** is the risk that the project's FM system is inadequate to ensure that project funds are used economically and efficiently and for the intended purpose. The **overall FM risk** is the combination of the inherent and control risks as mitigated by the client control frameworks. The **residual FM risk** is the overall FM risk as mitigated by the Bank supervision effort.

| | | | |
|---|---|---|---|
| | | iv) The information system will allow external interphases with the ADEB EPA system at the CRDA level, which will enable automated balance reconciliation. | |
| Accounting | S | **CR** – The project will use the ADEB and SIADE systems to gather, record, and summarize the project's financial transactions. However, as ADEB is essentially a budget system and SIADE is a treasury system, they do not allow for the proper recording of project financial transactions, and thus for the generation of project financial reports. Therefore, the accounting information for the project at both the MARPH and CRDA levels, will have to be kept on Excel spreadsheets. Manual accounting poses a major control risk, since data recorded manually is more sensitive to structural errors, such as improperly written formulas; data errors, such as the incorrect inputting of figures; and administrative errors, such as the lack of password protection, or improper sharing.<br>**MM** - To mitigate this risk, the project will use the Monitoring, Evaluation and Implementation of Public Projects system (Système de Suivi et d'Evaluation de l'exécution des Projets Publics) developed by CNI. The project will make wide use of financial information gathered through national systems like ADEB, SIADE, and the financial module of the new information system. Periodic reconciliations and cross checking against the information in those systems will be performed by DGFIOP at the national level, and by each CRDA at the regional level, to ensure that all transactions are reflected in the spreadsheets. | M |
| Internal Control | S | **CR** – The project will rely on the Tunisian internal control system for budget execution. This system relies on the principle of the strict separation of duties, as there are different layers of approvals at each stage of the spending process. This process is governed by the Public Accounting Code (*Code de la Contabilité Public*) promulgated by Law No. 73-81 of December 31, 1973. However, for expenditures financed under external resources, the payment request and payment issuance follows a separate track, as they are handled by the CBT, and paid from a designated account (DA). This may represent a risk for expenditures at the CRDA level, as there is a lack of knowledge on World Bank disbursement procedures and requirements.<br>**MM** – To mitigate this risk, the preparation of payment requests, and liaison with the Central Bank will be performed at UGO, with support from CRDA's FM staff. The POM will describe in detail the procedures, responsibilities, and interactions among stakeholders | M |
| Flow of Funds | L | **CR** – Overall, fund flow arrangements for the project are not complex and will follow Tunisia's Treasury Single Account procedures. However, it is expected that there will be a large number of payment transactions under Component 2 of the project (coinvestments). This component will be managed by CRDAs, which have little knowledge of the World Bank's disbursement procedures.<br>**MM** – To mitigate risks related to the proper and timely flow of project funds, the following measures have been agreed upon:<br>i) A segregated designated account (DA) will be opened at the Central Bank of Tunisia (CBT) for the whole project. Only FM staff within UGO at MARPH will be in charge of liaising with CBT.<br>ii) All payment requests, including those from the CRDAs, will be reviewed by the UGO before submission to the CBT.<br>iii) The CBT will make payments to service providers and/or project beneficiaries. | L |
| Fin. Reporting | S | **CR** - Project financial reporting arrangements are complex: they require broad coordination efforts at both the national and regional levels in order to produce and transmit consolidated project financial statements to project management as well as to the World Bank for timely decision making.<br>**MM** - To mitigate this risk, the following actions will be put into place:<br>i) The POM will clearly define financial management reporting responsibilities, specifying which reports must be prepared, by whom, and their due dates and required content.<br>ii) The new information system will be able to support the production of consolidated semiannual project financial reports. | M |
| Auditing | S | **CR** – There is a risk of overdue audit reports.<br>**MM** - To mitigate this risk:<br>i) The UGO, with support from the participating CRDAs, will ensure that there is a timely fiscal year-end accounting closure, and a timely preparation of the consolidated project's final financial statements.<br>ii) The new information system will support the production of consolidated annual financial statements.<br>iii) Detailed terms of reference (TORs) will be prepared by UGO and shared with the external auditor. Deadlines for the submission of the audit report will be clearly stated in the TORs. | M |
| **Overall FM risk** | **S** | | **M** |

H: High; S: Substantial; M: Moderate; L: Low

**Project Financial Management Arrangements**

37. The FM team concluded that, subject to the implementation of a number of actions designed to strengthen the system, the FM arrangements proposed by the borrower are acceptable because generally speaking they are capable of: i) correctly recording all transactions and balances; ii) supporting the preparation of regular and reliable financial statements; iii) safeguarding the entity's assets; and iv) being subject to auditing arrangements acceptable to the World Bank.

38. **Implementation Entity (including staffing arrangements**). MARHP, through DGFIOP, will implement the project. This unit will be responsible for technical and overall fiduciary oversight, including of the project's FM arrangements. DGFIOP has wide experience working with World Bank-financed operations, and broad knowledge of the World Bank's fiduciary policies and procedures, including those concerning procurement, FM, and disbursements. As this is a complex operation entailing a high volume of transactions at both the national (MARHP) and regional levels (eight participating CRDAs), it was agreed that a Project Management Unit by Objectives (UGO), hosted at DGFIO, will be created. The UGO will be created by decree, and full-time, dedicated staff will either be nominated by the Ministry or recruited according to specific TORs for which the World Bank would give its non-objection. In terms of fiduciary staff, a full-time, dedicated FM specialist will be assigned by MARHP to the UGO to handle project FM matters. Likewise, fiduciary specialists will be either nominated or recruited in each participating CRDA. UGO will also benefit from the support of the Administrative and Financial Directorate (DAF) within MARHP. The DFA will also help handle and consolidate all FM matters related to the project.

39. MARHP, with the support of the World Bank, will train UGO staff in specific World Bank FM and disbursement policies in order to strengthen their fiduciary skills.

40. **Budgeting.** Overall, the government of Tunisia has a well-developed budget process. The procedures for preparation, execution, and control are clearly established in the National Budget Organic Law (*Loi organique du budget*). Line ministries, including MARHP, are fully responsible for budgeting and managing their appropriations, including funds allocated for programs and projects. The proposed project will be included in the annual budget of the government of Tunisia under the budget allocation heading for MARHP, and there will be specific budget lines for the project at the MARHP level, and also at each participating CRDA level. In fact, once the loan is endorsed by the parliament, the total amount of the project will be written and published under the Government Budget Law (*Loi de Finances*), and annual indicative allocations will be budgeted at the MARHP and CRDA levels for project execution.

41. UGO, through DGFIOP, will record the approved project budget in the national ADEB system. This national computerized budget system allows for the proper recording of commitments and payments, and for adequate budget monitoring and control, as it offers a sound control environment and an adequate segregation of duties. The ADEB system has an official budgetary classification that is the basis for the preparation of consolidated budget execution information of all government expenses. In addition, for all expenditures financed under the loan,

UGO will make use of the SIADE system in order to maintain separate accounts related to external funding (*hors budget)* management.

42. **Accounting and Information System.** In Tunisia, all financial and accounting operations of the government are carried out, controlled, and accounted for according to the public sector accounting standards laid down in the Public Accounting Code (*Code de la Comptabilité Publique*), which was promulgated by Law No. 73-81 of December 31, 1973. The project accounting will adhere to the public sector accounting standards stated in this code.

43. The project will primarily use ADEB and SIADE to gather, record, and summarize the project's financial transactions. However, as ADEB is essentially a budget system and SIADE is a treasury system, they do not allow for the generation of both annual and interim project financial reports, which are necessary for timely decision making and effective project management. For this reason, the project will use the Monitoring, Evaluation and Implementation of Public Projects system (Système de Suivi et d'Evaluation de l'Exécution des Projets Publics) developed by CNI. This system has a financial module that allows for appropriate recording of project transactions on a periodic basis (daily or weekly), as well as for the production of specific reports, and can be installed at both the central and regional levels. To enhance project accounting and reduce any system risks in registering financial information, the project will design a set of complementary special controls beyond the system-embedded controls, and will describe procedures to be followed by staff in capturing and processing financial information: this will be included in the POM. The Monitoring, Evaluation and Implementation of Public Projects system allows for external interfacing with the ADEB and SIADE systems: this will enable automated balance reconciliation.

44. **Internal Controls.** Because there are different layers of approvals at each stage of the spending process, the Tunisian public finance management (PFM) system relies on the principle of the strict separation of duties. At the commitment stage *(engagement*) there is a dual control over commitment: administrative control via the line ministry, and financial control by the MOF (contract signed or order placed); at the verification stage *(liquidation),* the line ministry making the purchase has both the financial and the administrative responsibility to check the bill and verify that the supply has been received in full compliance with the contract's terms and conditions. The bill is then recognized as a liability of the public sector; at the payment authorization stage *(ordonnancement*), the budget holder (in this case the project coordinator) makes the request for payment through the public accountant *(ordonnateur),* who is in the *Comptabilité Publique*, within the MOF. The *ordonnateur* processes the payment orders, which are later transmitted to the *payeur général* or *payeur regional,* who issue checks. It is important to note that in Tunisia, budget expenditures financed under external resources follow different procedures at the "payment authorization stage." In fact, once the bill is recognized and the supply has been received, the project coordinator prepares and submits a request for payment, along with all relevant supporting documentation, to CBT. CBT verifies the eligibility of the expenditure as per requirements established in the project loan agreement and disbursement letter, and then processes the orders and issues checks.

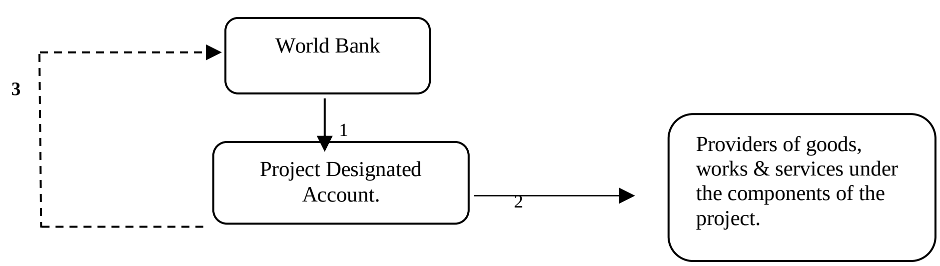
45. The project will use the existing internal control system in place within MARHP. This system conforms to the government system, and is deemed satisfactory by the World Bank. It includes the following: i) appropriate guidelines for annual budget preparation and implementation; ii) clear segregation of duties; iii) different layers of approvals; iv) regular

reconciliations of bank accounts, which provide reasonable assurance of the accuracy of financial records; and v) acceptable procedures for documentation and record retention.

46. A detailed POM that outlines specific procedures for payments under the national budget and those under the loan *(hors budget)* has been developed for this project. The POM also describes in detail the responsibilities at both the MARPH and CRDA levels.

**47. Funds Flow.** The project will make use of the Tunisian Treasury Single Account (TSA) system. The World Bank will disburse loan proceeds through the "advance to the designated account" method: this allows for funds to be provided to the project well in advance, so that the project may finance expected expenditures as they are incurred. To that end a designated account (DA) in foreign currency will be opened at CBT, under the project's name. Following the country's FM system for the management of external funds, CBT will manage this DA on behalf of the project, and thus will be in charge of processing disbursement requirements, including the withdrawal of loan proceeds and the documentation of project-eligible expenditures. Although CBT will operate the project DA, the responsibility for the proper use of the funds advanced by the World Bank to finance eligible project expenditures remains with MARPH. In the event that the World Bank determines that an ineligible expenditure has been financed by loan proceeds, it may require MARHP to either refund the amount to the DA, or in exceptional circumstances, as allowed in World Bank disbursement policies, provide substitute documentation for the expenditure. The description of the funds flow is presented in the following diagram: the solid lines represent the flow of money, and the dotted lines represent the flow of information

**Figure 1: Funds Flow**




1. Upon UGO/DGFIOP instruction, advances from the World Bank will be deposited into the project DA that has been opened at CBT.
2. Following national practice, whenever there is a need to pay to suppliers of goods, works, and services under any component of the operation, UGO/DGFIOP will instruct CBT to make such payments directly to the supplier or consultant.
3. Further advances to the project's DA account will be made upon reporting on the use of a prior advance. In accordance with the project disbursement letter, UGO/DGFIOP (through CBT) will report monthly on the use of loan proceeds advanced to the project's DA. The project's total eligible expenditure will be summarized in the Statement of Expenditures (SOE), which will be prepared by CBT and submitted to the World Bank for processing.

48. **Project Financial Reports.** The UGO, with the support of DAF and with inputs from the participating CRDAs, will prepare ***consolidated*** interim unaudited financial reports (IUFRs) every six months, and will submit them to the Bank within 45 days of the agreed reporting period. The report will reflect all project activities, financing, and expenditures, including counterpart funds and in-kind contributions if any, as described in the PAD and in the legal agreements. Specifically, the IUFR will include (i) a sources and uses of funds statement showing, both for the period and cumulatively (year-to-date) actual receipts and payments by the main income and expenditure classifications; (ii) beginning and ending cash balances of the project; iii) supporting schedules comparing actual and planned expenditures, by component and by category of disbursements; (iii) a bank account reconciliation statement; and iv) the project bank statement. UGO will use the cumulative IUFRs over the years of the project as the project's annual financial statements, and will complement the information provided therein with a statement on the accounting policies adopted, explanatory notes, and a management assertion.

49. UGO will use financial information generated from the Project Information System (possibly the "Système de Suivi et d'Evaluation de l'Exécution des Projets Publics" developed by CNI) to prepare project financial reports. This information has to be reconciled and double-checked with the financial information generated from the public debt management system (SIADE); the government budgetary system (ADEB); and from any subsidiary accounting information held in Excel spreadsheets. During appraisal, the FM team and the client will discuss and agree upon the IUFR template.

50. **External Audit**. An independent external auditor, acceptable to the World Bank, will audit the project financial statements, including the DA. The financial statements should be prepared in accordance with acceptable accounting standards, and audited in accordance with acceptable international public sector auditing standards. To that end UGO, within DGFIOP, will prepare the TORs for the auditing work, and will submit them to the World Bank for its approval. The TORs should encompass both the auditing of the financial transactions and an assessment of internal controls, and should cover all of the operations implemented under the project as well as all sources of financing, including in-kind contributions, if any. As a minimum requirement, the auditor will produce (a) an annual audit report including his or her opinion of the project annual financial statements; and (b) a management letter on internal controls. The UGO should submit the audit report to the World Bank within six months after the end of the fiscal year audited.

### Project Disbursement Arrangements

51. After considering the results of the assessment, the World Bank will disburse proceeds from the loan account to the project using three disbursement methods: i) direct payments; ii) reimbursements; iii) advances to the DA; and iv) special commitments. The DA method will prevail over the others to ensure timely funding of project-eligible expenditures. To that end, the project will open a segregated DA in Euros at CBT, where loan proceeds will be deposited. These funds cannot be commingled with other funds. Matters related to eligible project expenditures, disbursement percentage, withdrawals and reporting on the use of the loan proceeds, minimum value of withdrawal applications, supporting documentation, frequency of

reporting eligible expenditures under the DA, and other important disbursement information will be agreed upon during appraisal and described in the project disbursement letter.

**Procurement**

52. Procurement for the project will be carried out in accordance with the provisions stipulated in the loan agreement and the World Bank New Procurement Framework (NPF) for Investment Project Financing, applicable from July 1, 2016. Within the framework are four mandatory documents concerning policy, directive, procedure, and procurement regulations for borrowers: these are available on the World Bank's website (http://www.worldbank.org/procurement). It should be pointed out that when approaching the national market, as agreed upon between the World Bank and the borrower, the Tunisian national public procurement procedures may be used. In all cases, the national procurement procedures to be used shall give due attention to quality aspects.

53. DGFIOP, within MARHP, will host a project implementing unit (UGO), which will be responsible at the national level for (i) coordination of project stakeholders and activities, including the preparation and updating of the procurement plan; (ii) the follow-up of local infrastructure contracts; (iii) the consolidation of periodic progress reports on procurement activities; (iv) the awarding, signing, and monitoring of contracts with large amounts or on a national scale; and (v) global supervision of implementation carried out by CRDAs. To assume such roles and responsibilities, UGO shall have, from the launching of the project until its completion, a full-time, dedicated qualified procurement specialist, seconded by MARHP. The procurement specialist will work closely with, and will be assisted permanently by DRPS for the technical side (preparation and finalization with the World Bank of each TOR. The CRDAs representing MARHP in the region will be in charge of day-to-day procurement activities at the regional and local levels. In each CRDA, a regional project implementing team (RPIT) will be created and led by the head of DRPS, who will coordinate project-related activities. Each RPIT will be responsible in his region for (i) all procurement activities planned in the field, according to the annual work program and budgets; (ii) the management of signed contracts at the regional and local levels; (iii) reporting on contracts that may have been passed on at the level of small local entities, without being involved in the direct implementation of the contracts; and (iv) reporting periodically to UGO on progress made. The project will also hire, when necessary and when approved by the World Bank, consultants in procurement to ensure the successful implementation of the project.

54. DGFIOP is solely responsible for and accountable to the World Bank for all actions carried out for procurement at the national, regional, and local levels until the end of this project. Therefore, for each contract financed by the World Bank, DGFIOP will be accountable for the preparation of TORs, the selection process, implementation, and the payment of each contract.

55. For complex and large-amount contracts at the national and regional levels, the World Bank's procurement procedures will be used. This includes the use of the World Bank's standard bidding documents (SBDs). For small-value contracts, the Tunisian Public Procurement, regulated by Decree 1039, dated March, 2014 will be applied.

**Procurement Capacity Assessment**

56. A procurement capacity assessment was carried out for DGFIOP and the CRDAs of Beja and Jendouba. The assessment is based on the knowledge and procurement experience in these EAs, concerning the implementation of World Bank and non-World-Bank projects, taking into

account the predicted nature of the expenditures, and the likely size of the contracts to be procured. The main objectives of this assessment were to determine whether the implementing agencies have the capacity to adequately carry out the procurement activities of the project. This evaluation took into account the entire contracting process, which encompasses: (i) planning; (ii) preparation of TORs and bidding documents; (iii) receipt and evaluation of bids or proposals; (iv) finalization and signing of the contracts or agreements; (v) monitoring the execution of the project; and (vi) the filing and archiving of documents for audit and post-project review.

57. This assessment also took into consideration the performance of the Tunisian public procurement system, and the overall implementation rate of the World Bank portfolio in Tunisia. Potential procurement risks identified during the assessment were also analyzed in order to recommend adequate mitigation measures. The procurement risk was rated Substantial.

58. The conclusion of the assessment is that UGO and the CRDAs do have the capacity to carry out and manage project procurement, provided they can mobilize adequate resources, and that the recommended actions are taken. The summary risk assessment and recommendations are shown in the table below:

**Table 1: Procurement Summary of Risk Assessment and Recommendations**

| Findings | Issues/Risks | Initial risk level | Mitigation Measures |
|---|---|---|---|
| **Country level** | | | |
| Eventual disturbances and security concerns associated with the ongoing socio-political conditions | Conditions of procurement affected – process can be delayed or even blocked | Substantial | Increased support and closer monitoring of local units of the project at the central level |
| Challenges of involving the local population in the participatory process | Security concerns in the field for the local staff of the EAs combined with their lack of experience in dealing with social tensions and conflicts | Substantial | Increased support and closer monitoring of the project unit at the central level to the local units |
| **Implementing agencies level** | | | |
| Different level of capacity and experience among multiple EAs and institutional actors | Many institutional actors at the central, regional and local levels involved. Dilution of responsibilities, lack of coordination and delays in implementation. | Substantial | Detailed project operations manual (POM) to be presented to each actor immediately after the project's effectiveness, to be updated regularly. Procurement decisions and responsibilities to be detailed in the POM. |
| Staffing turnover, scarcity, and delays in the appointment or recruitment of personnel dedicated to project implementation | Frequent turnover of staff and lack of motivation due to the workload. Procurement staff not committed to their roles and responsibilities. | Substantial | Appointment of dedicated procurement specialists for the UGO and for each RPIT, to be effective before the project's effectiveness.<br>Allocation of adequate budget to access external expertise through the hiring of consultants to support the project. |
| Internal operation manuals (archive, procurement, etc.) obsolete | Existing operation manuals not updated with new institutional structure, and National Decree 1039 on public procurement. | Substantial | Comprehensive review of internal operation manuals. Can be completed with the detailed POM |

| | | | |
|---|---|---|---|
| Clarity of the Procurement Process | While the procurement process is quite well mastered within DGFIOP and the CRDAs, the UGO members, and local or community actors may not have previous experience in implementation of World Bank-funded projects. Procurement procedures and policies are poorly known, and often ignored. Lack of capacity to produce adequate procurement documentation in a timely manner. | Substantial | UGO members, local and community actors to be trained in basic procurement principles and procedures. Standard bidding documents, samples of bid evaluation reports, and models of contracts to be made available before project's effectiveness |
| **Project level** | | | |
| Information flow between the national, regional, and local levels | Lack of support for and closer monitoring of the project unit at the national level to the local units | Substantial | To be detailed in the POM |
| IT tools | New mandatory tools from the World Bank (STEP) and CNI (M&E for public project implementation) | Substantial | Training on STEP and the new CNI tool for all procurement specialists |
| Record Keeping and Document Management System | There is no concern about the EAs record-keeping and the document management system. However, a detailed description of procedures for local or community actors should be included in the project operation manual. | Moderate | Specific procedures to be defined at the national and regional levels in order to ensure that all procurement-related transaction documents are kept and recorded until final payment. |
| Knowledge of the World Bank's NPF | None of the procurement specialists at the national, regional, or local levels have knowledge of the NPF. This may result in delays in launching the procurement process at the beginning of project implementation. | Substantial | Specific training in the NPF before the project's effectiveness date. |
| Application of both national and World Bank procurement procedures | Confusion and eventual conflict between World Bank and national procurement procedures, leading to delays in the process and poor implementation performance of the project | Moderate | National procurement procedures to be fulfilled before any World Bank prior or post-procurement review |
| Large number of contracts | Component 2, which is the most important in terms of value, will not see very many large contracts but will have many small contracts resulting from initiatives implemented by local or community actors | Substantial | UGO and CRDAs to assume responsibility for the contracts concluded in accordance with sound management principles. All administrative procedures, and arrangements between all involved parties, will be explained in the POM. |
| Procurement Planning | Specific needs for procurement planning in compliance with the World Bank procurement guidelines. Lack of use of the procurement plan as an M&E and management tool. Detailed procurement plans not ready for the entire project life cycle. | Moderate | Specific training in the procurement plan. Detailed procurement plans for the first 18 months of the project has been elaborated and approved by the World Bank before the negotiation. |
| Bidding Documents | There is no concern about the EAs' familiarity with the use of standard documents. But there is lack of knowledge in the local community. | Substantial | All procurement standard documents to be used by all stakeholders are provided in the POM. |
| Evaluation of bids and contract awards | No guarantee to award the contract within the period of the validity of bids, to relevant bidders | Substantial | Sample of bid evaluation report to be annexed in the POM. |
| **Overall risk level** | | **Substantial** | |

## *Thresholds by methods and for prior review*

## Thresholds by Methods, and for Prior Review

59. The applicable thresholds by method and for prior review, in conformity with the NPF, are meant to be used for procurement planning at the beginning of project implementation. They may be revised during the project life cycle, depending on the findings and recommendations of the World Bank's project manager supervising project activities in view of the procurement implementation, and the subsequent risk assessment. The first market handled by UGO and RPIT, for each procurement category and method will be prior-reviewed by the World Bank.

**Procurement Prior Review Thresholds (US$ thousands)**

| Type of procurement | For competitive bidding | For direct contracting |
|---|---|---|
| Works (including turnkey, supply & installation of plant and equipment, and PPP) | 10,000 | 3,000 |
| Goods, information technology and non-consulting services | 2,000 | 800 |
| Consultants: firms | 1,000 | 500 |
| Consultants: individuals | 300 | 150 |

**Thresholds for Procurement Approaches and Methods (US$ thousands)**

| Type of procurement | Open international ≧ | Open national < | RfQ =< |
|---|---|---|---|
| Works (including turnkey, supply & installation of plant and equipment, and PPP) | 10,000 | 10,000 | 300 |
| Goods, information technology and non-consulting services | 2,000 | 2,000 | 200 |

**Shortlist of national consulting firms =< 300,000 US$**

60. The project does not include high-value contracts, but it does include services that may be highly specialized in the case of certain activities. As such, some contracts will have to be awarded at the international level, while the technical assistance and monitoring of local initiatives may be carried out by national providers.

61. Post-review of contracts will be carried out regularly by the World Bank or by a third party accepted by the World Bank, such as the supreme audit institution (CGF). In addition to the prior and post-reviews of contracts, the World Bank will globally supervise project implementation at least twice a year.

## Procurement Categories and Methods

62. In this project, goods, small works, non-consulting services, and consulting services will be procured. Three main procurement methods are expected:

***1) Contracts requiring international competitive bidding***

The World Bank's procurement procedures will be used. All international competitive bidding will be carried out using the World Bank's Standard Bidding Documents (SBDs) and models of contracts.

(a) ***Information systems markets***. For these markets, the complexity of technical specifications may justify the use of a procedure that is essentially based on performance criteria. A two-step procedure that would allow qualified operators to submit their technical tender before final submission can be envisaged. In order to motivate the enterprises and firms in question, it would be possible to carry out an initial selection in which only the most qualified among those meeting the qualification criteria would be selected for the invitation to tender. It should be noted that this process is permitted by the new public procurement framework (PPF) and will require particularly active support from the World Bank's teams.

*(b)* ***Study of legal advisory markets***. These contracts may be the subject of an international call for proposals, to ensure the services of the best law firms in the field. TORs, as well as selection criteria, should allow for and encourage the participation of national experts so that the services provided meet expectations. A more conventional method of selection based on cost and quality seems the most suitable for these contracts.

*(c)* ***Capacity-building market***. For this market, it may be envisaged that the delivery will be conducted by a local company with international support. However, it will be necessary to clearly delineate and identify the type of capacity building to be undertaken before choosing the best method of procurement.

***2) Contracts requiring national competitive bidding***

Services relating to local infrastructure contracts and markets for financial audits may be carried out at the national level without the need for international competitive bidding. However, some of the study contracts, which could be awarded to national providers, could also be the subject of a call for expressions of interest published at international level, if necessary. Individual consultants recruited for the project should be recruited at the national level, as there are experts in Tunisia who can provide these services.

These markets will be carried out using the national public procurement procedures, including the use of documents based on the standard national bidding documents that will be approved by the World Bank and annexed to the POM.

***3) Markets at the local level***

Under Component No.2 local initiatives supported by grants distributed to local or community actors to prepare and implement agricultural actions may give rise to contracts or public markets (if the originators are public entities). In these circumstances, and in order to provide flexibility in the implementation of these plans, the provisions of the World Bank for Community Participation in Development (CPD) should be used. The conditions for these arrangements, which allow for community participation, will be detailed in the POM. SBDs, approved by the World Bank and annexed to the POM, will be used.

63. The following provisions will be applied to all bids, whatever the category and method of procurement:

- An open and competitive approach to the market provides all eligible prospective firms or individual consultants with timely and adequate advertisement of requirements: this is the default approach for any contract to be financed by the World Bank. Any exception to this approach will require the World Bank’s approval.
- The eligibility of bidders shall be as defined under Section III of the World Bank Procurement Regulations. Provisions mentioned in the chapter on sanctions or disbarment related to fraud and corruption will be applicable.

- No foreign bidder shall be required to submit a bid in association with a domestic firm as a condition for bidding.
- Each bidding document shall clearly set out the bid evaluation process, the bidders' qualification criteria, and the contract award conditions.
- Technical and financial bids are always opened publicly, and the public opening of bids shall take place immediately, or very closely after, the deadline for the submission of bids. No evaluation of bids shall take place at the public bid-opening session.
- Markets planned to be financed by the World Bank, but awarded without respect and conformity to the procurement procedures and SBDs as detailed in the POM, will be taken in charge and financed by the borrower.

64. Any contract to be financed by the World Bank should be detailed in the procurement plan, which will be updated regularly and approved by the World Bank. The validated procurement plan will be recorded in the STEP system, and published on the ONMP's website (http://www.marchespublics.gov.tn/onmp/programmeannuel/liste-prgannuel.php?lang=fr).

65. In order to determine the optimal procurement approach that will yield the right type of response from the market, a Project Procurement Strategy for Development (PPSD) has been prepared in order to consider, among other things, the market situation, the operational context, previous experience, and risks. The PPSD and the Procurement Plan were prepared by the borrower with World Bank support. In addition, the POM define the main aspects of procurement procedures.

**Procurement Plans**

66. The borrower developed a global procurement plan for the entire project implementation. The borrower prepared also a detailed procurement plans for the first 18 months of the project, categorized by type of expenditures (goods, works, or services) using the most appropriate procurement methods. Both global and detailed procurement plans were approved by the borrower and the World Bank before project negotiation. These plans will also be published on the national public procurement website and on the World Bank's external website at the project effectiveness. The procurement plans will be updated in agreement with the project team annually, or as required, to reflect the actual project implementation needs and improvements in institutional capacity.

**Social and environmental (including Safeguards)**

67. In accordance with Tunisian legislation, and in compliance with the World Bank's OP/BP OP 4.12 on involuntary resettlement, a Resettlement Policy Framework (RPF) has been approved during a national workshop held on January 3, 2017, with the participation of key stakeholders (including representatives of key national institutions, GDAs, MSASs, CBOs, and producers' groups). It has been posted on the MAHRP website and the World Bank's external website on January 16, 2017. The major conclusions of the RPF are:

68. Social impacts of the activities of the proposed Project are expected to be positive. Agricultural resource users and producers (including women and youth) will directly benefit from a variety of investments aimed at rehabilitating their natural resources, creating new economic opportunities and growth, and building their technical and managerial capacities.

69. Negative environmental and social impacts of the institutional and legal reforms of Component 1 will be minimal, provided that legislative and regulatory texts take into account environmental and social safeguards requirements.

70. While Component 2 may finance small-scale physical investments (including local community facilities, small water-catchments, and gravel roads), impacts on project affected persons (PAPs) related to physical relocation, land acquisition or economic displacement (loss of income, livelihoods, or businesses) are expected to be minimal or non-existent, are anticipated. As defined by the RPF, a screening process will help to identify investment sub-projects which might result in involuntary resettlement and in such cases an *Abbreviated Resettlement Action Plan (ARAP)* will be prepared.

71. A *Process Framework (PF)* has also been prepared by the MARHP, because Component 2 is likely to include activities involving (for limited periods of time, comprised between three months and three years) the involuntary restriction of access to and use of specific natural resources designated for conservation activities by local communities - these restrictions will concern forests and rangelands whose degradation has not yet reached the threshold of irreversibility and which will be rehabilitated with different techniques. Adequate compensation measures will be identified in a Process Action Plan to be formulated in a participatory manner with concerned stakeholders. The PF has been approved during a national workshop organized on January 3, 2017 with participation of key stakeholders and has been posted on the MAHRP's Website and the Bank's external Website on January 16, 2017.

72. In reference to the World Bank's OP/BP 4.01 on Environmental Assessment, given the fact that the effects of the proposed project and its investments will be limited, not irreversible, and easily controllable and manageable, the project is classified as ***Environmental Category B***.

73. MARHP has prepared an Environmental and Social Management Framework (ESMF), which was approved during the national workshop held on January 3, 2017 with participation of key stakeholders, and has been posted on MAHRP's website and the World Bank's external website on January 16, 2017.

74. Activities to be financed by the project will follow the steps of an environmental screening process through an Environmental and Social Diagnostic Fact Sheet (FDES), which will determine the magnitude of negative impacts of the subproject on the human and biophysical environment (including potential water, air, and noise pollution during construction; the generation of liquid and solid waste; the cutting of trees, etc.). Based on the information included in the FDES, it will possible to determine if a complete Environmental and Social Management Plan (ESMP), or a simple Environmental and Social Information Fact Sheet (FIES) will be required, in order to identify expected risks and related measures aimed at reducing or avoiding them. ESMPs and FIESs will be elaborated in consultation with key local stakeholders, and will be published and posted on MARHP's website and the World Bank's external website. Mitigation measures identified in these safeguard tools will be included in the Terms and Specifications documents (*Cahiers des charges*) for operators and entrepreneurs.

75. Within each administrative district (*Imada*) covered by the project,[39] UGO will be in charge of the establishment and managing operation of a Complaints Commission, made up of the representatives of local GDAs, CBOs, MSASs, CSOs, women and youth groups, as well as CRDAs and other deconcentrated technical services. The UGO will prepare a template to help people potentially affected by subprojects to properly present their complaints, if needed, and to establish and deliver the amounts of compensation (by type), as defined in a participatory manner on the basis of the RPF and the PF. Related costs will be integrated into the subproject's budget.

76. Within each administrative district (*Imada*) covered by the Project,[40] the UGO will be in charge of the establishment and managing operation of a *Complaints Commission*, made up of the representatives of local GDAs, CBOs, MSASs, CSOs, women and youth groups, as well as CRDAs and other deconcentrated technical services. The UGO will prepare a template to help people / households potentially affected by sub-projects to properly present their complaints, if needed, and to establish and deliver the amounts of compensation (by type), as defined in a participatory manner on the basis of the RPF and the PF. Related costs will be integrated into the sub-project's budget

77. Specific indicators will track the impact of the activities of the proposed project on women (Specific indicators will track the impact of the activities of the proposed project on women (both individual women and women's groups). See Results Framework and Indicators in Annex 1, PDO Indicator 3 and IR Indicator 5.

78. Beneficiary feedback will be mainstreamed through: (i) consultations with the direct beneficiaries of the investment subprojects; and, (ii) online and offline Grievance Redress Mechanism (GRM) (see below), which will be specified in the POM and linked to the MAHRP website. The process will promote participation, and will contribute to proactively managing expectations, building local buy-in, and strengthening citizens' ownership of the subprojects for more sustainable development results.

79. A key specific indicator will measure the degree of satisfaction of project beneficiaries (disaggregated by sex and age) (see PDO Indicator 3).

80. The proposed project will also integrate beneficiary feedback through the establishment of online and offline GRMs. The GRM will be developed both at the local and national level, and will be designed to capture community feedback on subprojects as well as feedback related to environmental, social, and fiduciary risks. A GRM manual will be produced with the purpose of promoting a consistent approach to handling complaints and grievances across all subprojects, and clarifying GRM-related mechanisms at the national and regional levels.

[39] In the Tunisian administrative architecture, each governorate (*Wilaya*) - chaired by a *Wali* - is made up of a limited number of *Mohtamdiya,* or counties, which are subdivided into a number of *Imadas,* or districts. *Imadas* – chaired by an *Omda* - are further subdivided into *Masheikha,* or subdistricts (chaired by a *Chekh*).

[40] In the Tunisian administrative architecture, each Governorate (Wilaya) - chaired by a *Wali* - is made up of a limited number of *Mohtamdiya* or Counties, which are subdivided in a number of *Imadas* or Districts. On the other hand, *Imadas* – chaired by an *Omda* - are also subdivided in different *Masheikha* or Sub-districts (chaired by a *Chekh*).

81. In addition to OP 4.01 (Environmental Assessment) and OP 4.12 (Involuntary Resettlement), the following safeguard policies were triggered: (i) OP 4.04 on Natural Habitats; and (ii) OP 4.36 on Forests.

82. The overall environmental and social impact of the project is considered positive, and safeguard tools provide enough information for decision making on environmental and social aspects during the implementation phase.

**Citizen Engagement**

83. The project explicitly seeks to support the engagement of stakeholders and beneficiaries through consultative processes, engagement in local-level planning, and feedback mechanisms to elaborate and adjust the ILM approach and access to economic opportunities, thus contributing to achieving sustainability and project outcomes. Feedback mechanisms will be developed in the project design to ensure transparency, accountability, and learning, as well as a continuous dialogue with local beneficiaries and other stakeholders. During implementation, particular attention will be given to the capacity of local structures to close the feedback loop and report on actions taken in this regard. Specific elements of the framework for citizen engagement include: (i) support for the engagement of local rural communities in the planning and management of landscapes, including monitoring; (ii) support for community engagement in determining local investment in agriculture added VC investments; (c) support for a feedback mechanism designed to process concerns and questions from beneficiaries and other stakeholders at the regional and local levels, with a view toward resolving their concerns and questions within a specific timeframe. The protocol and mechanisms for elements of this citizen engagement framework will be detailed in the POM. The quality of its implementation and progress will be monitored at both the regional and national levels through supervision and dialogue.

**Table 2: Mechanism for Citizen Engagement and related indicators**

| Contribution to PDO: to increase access to improved irrigation and agricultural inputs and to improve integrated natural resources management by local actors in targeted landscapes - and, in the event of an eligible crisis or emergency in Madagascar, to provide immediate and effective response to said eligible crisis or emergency. | Relevant citizen engagement activities | Citizen engagement results and approach to management |
|---|---|---|
| PDO is supported by citizen engagement as:<br><br>(1) an integrative tool for social accountability towards rural households across the targeted landscapes and range of interventions<br><br>(2) as a means to provide a voice and engage with local actors and ultimate beneficiaries to ensure that local and regional institutional capacity in planning and implementation and local improvements respond to local problems, demands and needs. | A. Feedback mechanism across landscapes (third-party monitoring) and closing of the feedback loop through fora for engagement (focus group discussions)<br><br>B. Capacity building of local government structures in landscape management (agriculture, irrigation, agro-forestry etc.) and delivery of interventions to take account of feedback | Target beneficiaries in lagging regions with rating 'Satisfied' on project interventions (disaggregated by sex, age: 15-35) landscapes (disaggregated by sex) (%)<br><br>Data source: field-based perception survey implemented by a third party |

***Monitoring & Evaluation (M&E)***

84. M&E in this project is undertaken to i) establish a common environment for information sources describing the landscapes and economic opportunities involved; ii) develop a tool for results-based management of the project; and iii) meet routine reporting requirements as part of the World Bank Group project cycle. It is designed as a framework for accountability of progress toward local, regional, and national objectives in the management of natural resources and related VCs in Tunisia. This includes accountability of the participating ministries and their departments and agencies. In terms of accountability toward citizens, demand-social accountability of interventions will be captured through a citizen engagement indicator that will also measure gender aspects. The citizen engagement framework is based on a perception survey and a strong feedback loop. The data sources include a perception survey (regarding citizen engagement), and a field survey (regarding landscape management and VC aspects, e.g. access to inputs and storage capacity; infrastructure; and biological parameters). It is expected that the frequency of data collection will be annual. Central to the M&E approach is a platform for the communication of results, including dissemination and communication products. The project will put special emphasis on the mapping of project interventions and results through geocoding of activities and overlay with key indicators.

85. Under the leadership of COPIL, UGO will have the overall coordinating role in M&E. UGO will hire a dedicated M&E specialist who will ensure that data and information from all landscapes and institutions are produced and collected on time, and are of sufficient quality. At the national level, the UGO will lead all aspects of M&E, and will provide operational tools and instruments for data collection at the local level. Furthermore, assistance will be provided to LCGs in monitoring and implementing their respective ILDPs. The Project Manual of Monitoring & Evaluation will be elaborated, and will be part of the Operation Implementation Manual.

86. The M&E activities will include (i) generating information on progress of the project based on the Results Framework discussed in Annex 1; (ii) analyzing and aggregating data generated at the local and regional levels; and (iii) documenting and disseminating key lessons to all stakeholders in Tunisia, together with the communication function of the UGO.

87. An Integrated Information System to monitor project activities at the MARHP and CRDA levels will be implemented before project effectiveness. This system will include a financial module, and will allow for the production of single and consolidated annual and semiannual project financial reports. It is intended that the project will use the Monitoring, Evaluation and Implementation of Public Projects system (Système de Suivi et d'Evaluation de l'Exécution des Projets Publics) developed by CNI.

*Role of Partners (if applicable)*

88. The project preparation team has engaged in stakeholder consultations and dialogue to communicate project objectives and approach so as to ensure that all stakeholders will be able to provide inputs that will lead to improved implementation performance. During project implementation, consultations will continue at all levels across the two selected regions. At this stage, consultations will cover the 10 selected LUs: they will continue during project

implementation, and will aim to maintain dialogue and information sharing about project interventions. Stakeholders to be consulted will include civil society groups, governorate and delegation-level associations, local and international NGOs, private sector operators, development partners, and national, governorate, and delegation-level governments directly concerned with the project.

89. The government is actively engaging with a variety of ministries in the project preparation process, including the Ministry of Environment and Local Affairs, the Ministry of Development, Investment, and International Cooperation, and the Ministry of Tourism. This engagement will continue throughout project implementation.

90. Given the emphasis of the project on support to MSMEs and POs, representatives of the private sector have been closely consulted with during project preparation. During the World Bank missions, the government has organized several consultations with these actors. Communication and consultations will continue extensively during project implementation to ensure that their input is received, and to allow for improved implementation.

91. During the project preparation process, the government has convened development partners who have attended all national consultations related to the development of the Forest Investment Plan, and also participated in project preparation missions.

92. To increase project visibility, and to engage a wider group of partners and stakeholders, the project will prepare a communications strategy that will highlight the project’s emphasis on the livelihoods of rural communities in the Northwest and Center-West regions. Outreach will highlight the importance and benefits of ILM, as well as of strengthening agricultural governance, territorial planning, and land management, and the links to improving livelihoods and economic opportunities.

## Annex 4: Implementation Support Plan

### Strategy and Approach for Implementation Support=

1. The strategy for implementation support will include formal supervision visits, including field visits to the targeted regions, governorates, delegations, and landscapes, and the provision of support to the UGO and RPITs.

2. **Implementation Support Plan**. Special attention will be given to: (i) supporting the strengthening of CRDAs, RPITs, and CDLs, and monitoring their performance; (ii) reviewing the progress of key policy and institutional reforms supported by the project, as well as their impacts; (iii) ensuring that the content of technical assistance to beneficiaries is effectively delivered by service providers (SPs); (iv) monitoring the development and performance of agricultural activities, including olive tree plantations supported by the project, and the implementation of producer organization (PO) business plans; (v) implementing a proactive communication and consultation strategy that requires stakeholder engagement; and (vi) monitoring overall project implementation and performance, including its results indicators.

3. **Fiduciary Requirements and Inputs**. The FM implementation support plan will be risk-based, and will include review of: (i) the project's FM system, including but not limited to accounting, reporting, and internal controls; (ii) beneficiary institutions; (iii) a quarterly Statement of Expenditures (SOE); and (iv) annual audited financial statements, as well as timely follow-up of issues arising from the audit. The World Bank FM team will participate in project implementation support missions as appropriate. Guided by the Procurement Plan, review and monitoring of procurement activities will be undertaken to ensure compliance with World Bank procurement policies and procedures. The World Bank's procurement team will also participate in implementation support missions.

4. **Environmental and Social Safeguards**. Implementation support will include the supervision of social and environmental safeguard management at the national and local levels, including the implementation of the ESMF, RPF, and PF, as well as the provision of training and guidance to UGO, RPITs, RCs, CDLs, and project beneficiaries. As part of the regular implementation support missions, audits and reviews will be undertaken to assess how the project is doing. The POM will detail procedures, management plans, and checklists to further support environmental and social safeguard implementation requirements.

### Implementation Support Plan

| *Time* | *Focus* | *Skills Needed* | *Resource Estimate* | *Partner Role* |
|---|---|---|---|---|
| *First twelve months* | Project start-up, procurement of key activities launched in year 1, identification of any problems early in the life of the Project | Forestry, agriculture, land, NRM, community development, safeguards, financial and procurement expertise | 200,000 | |
| *12-48 months* | Continued TA to the UGO and RPITs Units, review of the continued adequacy of financial, procurement, and safeguards arrangements, and other implementation requirements | Forestry, agriculture, land, NRM, community development safeguards, financial and procurement expertise | 800,000 | |

**Financial Management Implementation Support Plan**

5. Given the overall substantial project FM risk, the project implementation support strategy will include the following: i) biannual on-site supervision missions to monitor project FM risk, and to ensure continued adequacy of agreed upon FM arrangements; (ii) desk review of IFRs; (iii) desk review audit reports and follow-up of any issues raised by auditors in the management letter, as appropriate; (d) update of the project FM performance and risk through the Implementation Status and Results Report (ISR).

## Annex 5 Financial and Economic Analysis

1. This Annex presents the **financial** and **economic** analysis of the proposed project. The **financial analysis** aims at demonstrating that income-generating activities on and off-farm, as proposed in the Project (mentioned hereafter as ILDP), are profitable and therefore sustainable. The **economic analysis** aims at demonstrating that, from society's perspective, the project as a whole is viable, taking into account, as much as possible, all quantifiable benefits in situations with and without project.

## I. PROJECT'S QUANTIFIABLE BENEFITS

2. The Project is expected to generate substantial quantifiable net incremental benefits coming mainly from **Component 2:** *Fostering sustainable regional investment* and its three sub-components: (i) climate-smart and sustainable agricultural practices (CP 2.1.), complementary local infrastructure (CP 2.2) and (ii) fostering economic growth (CP 2.3).

3. ***Climate-smart and sustainable agricultural practices (CP 2.1.).*** The benefits would mainly arise from increased agricultural and livestock productivity (due to used techniques, conservation tillage, improved soil organic matter, reduced erosion and sedimentation, increased forage productivity in rangelands, improved livestock husbandry practices). The project will facilitate transition to a more sustainable management practices, thereby securing long-term productivity of those areas and raising incomes for local people. Furthermore, some additional benefits to the rural communities will be coming from the short-term employment provided through hiring local villagers for soil conservation works. Agroforestry (olive plantation) on 20 000 ha of degraded land will not only contribute to the conservation of agricultural land but will also increase agricultural production at national level with incremental olive production of about 20 000t/year at the end of investment period (about 70 000t/year at full development) or a value of US$ 10.4 mln/ year (36.5 mln/year at full development).

4. ***Complementary local infrastructure (CP 2.2).*** The Project will provide financing for small scale public infrastructure facilities required to improve the overall efficiency of the supported value chains. Small infrastructure investments will be mainly focused on access improvement (forest access/feeder roads, small bridges), as well as on water resources mobilization and enhancement (small water reservoirs). Better access would improve the operational efficiency of the value chains supported, increase the volume of collection and reduce time spent on travel and transportation costs; while water resources enhancement will have a positive impact on agricultural and livestock production.

5. ***Fostering economic growth (CP 2.3).*** The benefits of this sub component would potentially arise from (i) establishment of Productive Alliances (PAs)[41] and (ii) support to Value Chains (VCs). **PAs** will generate significant positive impacts in terms of production increases,

[41] The Project will support establishment of formal agreements, or "**Productive Alliance**" (PA) collaborative arrangements between small producers' organizations and agribusiness firms, developed for particular products. These arrangements between groups of organized farmers and a buyer will be focused on the selected commodities supported by the Project through investment in production, marketing and technical assistance.

sales, income, employment and spillovers for completed PA projects. Ex-post evaluation of PA projects shows that producers benefit from better product quality, diversification (and hence increased sales volume /prices) and higher income of beneficiary households. Specifically, increases in sales have been reported to range between 20% and 60%[42]. **Support to VCs** will be directed towards few selected chains to fill in the existing gaps and help producers and processors access existing distribution channels within the chain, increase quality and diversity of their production to allow them capture value added. Benefits from VC investments will be the improved quality of the products within the value chain, which represents an advantage for PAs buyers interested in commercializing high quality agricultural products, as well as for the sellers that are able to access a higher quality segments of the market (i.e. organic certification, etc.). The local population involved in harvest and first processing of non-wood forest products benefits at the first stages of the value chain from better access to the resource, guaranteed market and increased demand for the collected production, however, for FPCs and AMPs, the activity would represent almost always a complementary activity (additional) to the ongoing activities carried out on farm.

## III. FINANCIAL ANALYSIS

6. The Project is expected to bring PA and VC support to the selected key products identified during the design of the Project: ***(A) Forest Products for Consumption*** (Aleppo pine and Stone pine); ***(B) Aromatic and Medicinal Plants*** (Myrtle and Mastic essential oil) and ***(C) Agricultural Products within peri-forest area*** (sheep meat, beef-cattle meat, cattle milk and apple and olive).

### ***A) Forest Products for Consumption (FPCs): Aleppo pine and Stone pine***

7. **Aleppo pine**. Aleppo pine activity includes the following stages: (i) harvest of cones, starting with the sale of use rights by the Forest Department (Ministry of Agriculture); (ii) sale of cones by the local population (one case of GDA) and about 100-300 microenterprises (harvesting and first processing); and (iii) wholesale and further processing (2nd and 3rd transformation) by a limited number of operators. The majority of the product is sold and consumed in the local market (250 tons) and only a small proportion (2.4 tons) is exported and/or used for pastries. Aleppo pine seeds and its derived products ("zgougou") are very popular and valorization of these products includes multiple (cream dessert, ice cream and candies with zgougou aroma, assida, zgougou vegetable oil, baklava and other Tunisian pastries with zgougou as an ingredient). Currently, domestic consumption is estimated at 1.5 kg seeds or 500 g of ground zgougou per family per year with predictions estimating a further increase to 2 kg of seeds per family per year.

8. **Stone pine**. Despite of the importance of wood production from stone pine trees, demand for pine nuts and their value have been increasing over the years. Given an average price of 8,7 US$/kg, the value of such a production is estimated at between 56,3 US$ /ha and 220 US$/ha, which shows to be more profitable compared to wood production (11,3 US$/ha to 14,6 US$/ha).

42Measured by sales receipts, sales volume marketed, net sales revenue, or absolute sales value. *Linking Farmers to Markets through Productive Alliances*, World Bank (2016)

The value chain starts with the local population harvesting the pine cones (up to 3 000 collectors) and finishes with 5-20 middlemen selling the pine nuts to supermarkets and other retailers.

9. There's a great potential for growth within both the Aleppo and stone pine sector, given that, in terms of volume, **only 13%** of the current potential of Aleppo pine and **only about 7%**[43] of the stone pine production potential has been currently. Therefore, the Project will contribute to mobilize untapped potential of the product, providing access to the forest resources to a greater number of small farmers', and providing support to small farmers and businesses at each segment of the value chain, linking them to the resource as well as to the potential market.

***B) Aromatic and Medicinal Plants:*** Myrtle and Mastic essential oil

10. **Myrtle essential oil** production includes three main stages: harvesting, distillation and marketing. Harvesting is done by small processing operators and businesses, the local population is used as workforce to collect the product. The population may also operate and harvest for local use on small territories as part of pilot projects. Distillation is done by local associations (in particular rural women), while marketing is done through distributors. Few companies are involved in myrtle's local distribution and export (Abdelaziz Ben Belgacem, Mrobirtech Aromacha, Stolia, Essential oils, Ouhada, Herbs Tunisia, Carthago species). Myrtle essential oil remains a niche product both nationally and internationally. Myrtle consumption at local level is limited to rural areas with a market size estimated at 400-500 kg. The value chain is composed of different stages and operators: 2500 families collecting the myrtle and selling it for processing (distillation) to aromatic and medicinal enterprises (20). There are families involved in distillation (100-300) that sell directly to consumers at the souk; and there are 5 microenterprises engaged in processing and selling to (50) organic product outlets, (50) boutiques selling aromatic plants, and 10 enterprises in aromatherapy (FAO, 2016).

11. **Mastic essential oil** production is composed of harvesting, 1st transformation, middlemen, 2nd transformation and retail. The harvest is done by local families (about 300 families), one GDA (Oued Maaden in Nefza) and about 50 fruit harvesters (usually rural women). The mastic fruits are collected and then processed at the local level over three months of the year (November-January) using two processing techniques – the traditional one (most common in Tunisian forest areas), or the "improved" one. The traditional extraction technique allows to extract an average of 70 l of oil per year and per household. Production is sold at farm-gate or on the local market; the sale varies between 6,5 US$/l (to a middlemen) and 15,2US$ /l (if sold directly at farm gate). The "improved process"[44], allows to raise quality and efficiency of production by 40 percent compared to the traditional method, hence reducing production cost and allowing for a higher selling price. At the wholesale level, mastic oil is purchased by traders at the price that varies between 6 US$/l and 8,7 US$/l, while the sale price is 10,9 US$ – 15,2 US$ /l. At the retail level, small traders in the souks and pharmacies are proceeding with filtering and bottling of the oil. The average amount purchased per year is 15 l per trader. The oil is divided into small bottles of 30 ml and sold at 2,2 US$/bottle, therefore the price per liter of oil

[43] *Diagnosis of the selected landscape units* report, 2016
[44] Developed by INRGREF (IDRC project)

can reach 70 US$. In pharmacies, the sale of mastic fixed oil takes place in 100 ml bottles at a price that varies between 12 US$ and 17,4 US$ per bottle.

12. Activities under the Project, for both FPC and AMP chains, will include: (i) equipment (processing/storage/ packaging, etc.); (ii) technical assistance; and (iii) access to finance (through matching grants). With the Project, financial benefits for the chain's main actors will be: (i) for the harvesters – better access to the forest resource to a greater number of small farmers' households; (ii) for small processors – with better access to finance, possibility to upgrade processing equipment and therefore spend less time on processing (shelling and crushing of pine seeds, essential oil distillation), process greater quantities and obtain a higher quality of product; (iii) for collectors, wholesalers and retail - losses avoided with upgraded storage capacities, as well as some value addition through technical assistance, better packaging and upgraded equipment for 2nd processing. Incremental financial benefits are presented in Table 1 below; further details are in the Appendix to the PAD (in file).

***C) Agricultural Products within peri-forest area: sheep, livestock (beef and milk), horticulture (apple and peaches) and agroforestry (olive)***

13. **Support to sheep meat (Selta Zoghmar/Jelma) production.** Sheep fattening represents a very popular activity within the project area (i.e. practiced by 60% of households in Zoghmar and by 25% of households in Selta). On average, one household fattens about 3 batches of 100 lambs per year, each batch is fattened over a 3-months period. Existing animal husbandry practices limit animal's weight increase keeping them below the potential and ultimately causing higher mortality rate. The model illustrates the impact of project's activities (advisory services, better access to finance/matching grant financing) on small ruminants keeping households. It was conservatively estimated that animal mortality could decrease by a minimum of 5% following adoption of substantially better practices. Furthermore, weight and therefore quality of animals to be sold will increase allowing farmers to fetch higher selling price for a higher quality product. The activity shows an incremental net benefit of US$ 2 502 per family and per year.

14. **Support to livestock production (meat and milk). Three models** have been developed to illustrate main support activities conducted under the project: (i) adoption of improved husbandry practices (hygiene, vaccination and supplementary feed) and the likely returns to smallholders investing in the rehabilitation of the barn; (ii) improved grazing land and pasture water ponds; (iii) establishment of a dairy processing (cheese making unit)

- **Model 1: adoption of improved husbandry practices.** The existing animal husbandry practices limit milk and meat yields. Furthermore, limited access to short and medium-term financing prevents smallholder farmers from investing in the rehabilitation and upgrading of their farm. It's been conservatively assumed that the investment in animal housing and adoption of improved husbandry practices would lead to 10% increase in meat and milk production over time. The activity shows an incremental revenue at full development (YR 5) of US$ 2 374 per family and per year.

- **Model 2: improved milk yields and meat production with better access to water. Water ponds.** The model depicts the impact of the construction of watering facility and a meadow improved with the project. The reservoir will improve the livestock's access to water which, when combined with improvements in pastures, will enhance the overall health and nutritional status of the herd, resulting in lower mortality and better productivity. Each water pond has a capacity of 20,000 m3[45] for animal consumption, supplying water to 190 family livestock units. [46] Assuming further that the meat and milk production could increase by 10% over time following substantially better feeding, the value of the additional meat and milk production would then be an estimated at around US$ 10 711 per year. All replacement and maintenance costs consist of unskilled labor which the beneficiaries can provide over the year. The sustainability of the investment is therefore quite likely.

- **Model 3: dairy processing/cheese making unit.** The model assumes creation of a new enterprise – processing 10 000 liters of milk daily, with additional production of 330,000 kg of cheese at full development. Incremental revenue is derived from sales of cheese, which is sold in the same year that the milk is purchased. It is assumed that incremental supplies of milk build up over a 3-year period, mirroring the likely build-up in farmers' herds following them becoming aware of the increased demand for milk. Although the operating costs are high, because of the relative fast turnover of the cheese, no short-term lending has been included in the model. At full development, the enterprise would purchase the milk of 500 cows, mostly owned by smallholders and provide the equivalent of ten additional full-time job equivalents. At full development, the model shows an incremental net benefit of US$ 279 125 per year. The model results in an internal rate of return of 19%.

15. **Support to horticulture (apple and peach) / Siliana. Two models** have been developed to illustrate main support activities conducted under the project.

- **Model 1: improvement of an existing orchard (apple).** Horticulture is a profitable business in areas where good agricultural land is limited and where household labor is available. The region has shown a proven potential and a demand for soft and stone fruits (apple, peach). However, poverty, lack of business knowledge and appropriate finance as well as of technical information and skills, outdated varieties and farming practices, hamper smallholders' integration into the market. The apple has been chosen as a proxy to illustrate the financial impact for a farmer who decides to invest in upgrade of a small orchard. Improved agricultural practice together with a better post-harvest management will lead to an increase in cultivated apple production and decrease in post-harvest losses. Furthermore, higher benefits obtained from horticultural production are due to the premium price fetched on the marked because of product's biological qualities/certification. The model shows an improved net annual income on the farm at full development at US$ 299 per hectare and per year.

- **Model 2: Apples Cold Storage Facility (Bargou/Siliana).** This enterprise model demonstrates the effect of improved storage facilities on the activity of an existent small collector. The commercial viability of the proposed enterprise is justified by existing off-

[45] 20 million liters of water. With evaporation, an average of 18 million liters of water would be available each year

[46] A typical family livestock unit in the project area would be composed by 4 cows and 15 small ruminants. Given a unit's overall daily need of 260 l, the reservoir could supply 190 family livestock units per year in the project area.

season domestic market opportunities as well as by a lack of appropriate storage facilities for fruits. The investment is expected to lead to increased market access for a large number of small apples producers in a typical PA and service provision enterprise. The investment would involve the construction of building and the installation of cooling equipment. The improvement would be in terms of greater volumes stored and losses avoided, which would enable a better competitive advantage due to more reliable supply. The model assumes that the cold storage service provider would store approximately 3, 000 tons[47] of apples purchased soon after the harvest from about 57 small producers. At full development, the model shows an incremental net benefit of US$ 279 125 per year and an internal rate of return of 13%.

16. **Support to olive production.** Illustrative model has been developed to demonstrate possible benefits with an establishment of a new extensive (rain fed) plantation. The model presents a newly established plantation using traditional system of cultivation of the olive tree, non-irrigated and extensive, using few inputs (and few, if any, chemical inputs), making possible an organic certification. Extensive production is characterized by high labor utilization (mainly family), low planting densities (125 trees/ha. Two main local varieties – Chemali and Chetoui - were used as proxy for traditional extensive cultivation. Investment costs of drip irrigation is approximately TD 2 000 per hectare. Most of the workforce used on-farm is unskilled and represents the main part of production costs, particularly for harvesting and pruning. With project, applying improved agronomic techniques, at full development (year 16), the established plantation will allow to obtain yields of about 3.5t/ha of olive and an incremental net benefits of US$ 1 637. The activity starts being profitable from the 3rd year. Model shows an FIRR of 26%. Incremental financial benefits are presented in Table 1 below; further details are in the Appendix to the PAD (in file).

**Table 1. Summary of Financial Benefits (US$)**

| | Without poject | With project | Incremental | IRR |
|---|---|---|---|---|
| **Support to forest products for consumption (FPCs) -stone pine** | | | | |
| Harvest and 1st processing | 1,104 | 1,754 | 650 | |
| Collection/Wholesale | 770 | 1,659 | 890 | |
| Retail | 870 | 2,000 | 1,130 | |
| **Support to medicinal and aromatic plants (AMPs) - mastic** | | | | |
| Harvest and 1st processing | 409 | 750 | 341 | |
| Essential oil distillation | 935 | 1,543 | 609 | |
| Retail | 2,357 | 2,875 | 518 | |
| **Support to Agricultural Products (Aps) within peri-forest area** | | | | |
| **Support to ovine meat production** | | | | |
| Improved sheep fattening | 7,217 | 9,720 | 2,502 | |
| **Support to cattle milk production** | | | | |
| Improved husbandry practices | 2,655 | 5,029 | 2,374 | |
| **Support to meat and milk production** | | | | |
| Improved grazing and water availability (190 hhds) | 107,109 | 117,820 | 10,711 | |
| **Support to dairy processing** | | | | |
| Dairy processing/cheese making unit | 0 | 279,125 | 279,125 | 19% |

[47] Assumptions on the volumes of apple production within selected site area - *Detailed diagnosis of the landscape units*, World bank (2016)

| | | | | |
|---|---|---|---|---|
| **Support to horticulture (apple and peach)/ Siliana** | | | | |
| Improved quality /apple production | 9,122 | 9,421 | 299 | |
| Fruits collection point and cold storage upgrading | 13,043 | 90,652 | 77,609 | 13% |
| **Support to olive production** | | | | |
| Establishment of an extensive olive plantation (per ha) | 0 | 1,637 | 1,637 | 26% |
| *Sources: Création de paysage oléicole dans les zones peu développées du nord ouest et du centre ouest (2017), DGF; FAO study Potentials of NWFP for VC development: Tunisia (2016); Analyse de la filiere oleicole, FAO (2015), Detailed diagnosis of the landscape units report, Odesypano, mission's estimates* | | | | |

17. Although the table results show profitability acceptable for all products, it is recommended that the preparation of project technical and economic benchmarks include calculations of profitability threshold for each product and activity (e.g. minimum area to be planted, minimum yield to achieve etc.), so as to ensure maximum profit margins when possible.

## IV. ECONOMIC ANALYSIS.

18. Economic analysis tries to capture the entire benefits of the project from a society's view point. It accounts for all the benefits estimated in the financial analysis, in addition to (A) reforestation activities; (B) reduction of dam sedimentation; (C) rangelands rehabilitation; (D) forest roads rehabilitation; and (E) carbon sequestration.

19. ***A) Benefits from reforestation activities.*** The project will support interventions for forest regeneration within the 10 preselected LUs with planting forest species (e.g. cork oak, eucalyptus, stone pine in the North-West; Aleppo pine, eucalyptus, acacia in the Centre-West). The analysis[48] show that interventions on degraded forests would be profitable, generating incremental net benefits of TD 2, 751-8,473 per hectare. Reforestation activities will be conducted on 2,300 ha of degraded oak forest and 886 ha of degraded pine forest and shrubs.

20. ***Cork oak plantation as a replacement of degraded cork oak areas.*** The cost of this intervention covers planting (first year), maintenance, guarding, harvesting and logging. Benefits include the production of cork, wood (2.1 m3/ha/year), acorns (5kg/tree) and forage (300UF/ ha). The intervention shows an incremental net benefit of TD 9,133/ha. Situation without project is estimated at TD 6,382/ha. The incremental net benefit of planting is therefore TD 2,751/ha.

21. ***Plantation of different species (stone pine, eucalyptus, Aleppo pine, acacia) on degraded shrubs and degraded pine forest***. This activity will include plantation (1st year), maintenance and guarding. The benefits include wood production (4.5 m3/ha/year), cones (700 kg/ha) and forage (400FU/ha). The intervention shows an incremental net benefit of TD 8,473 /ha.

22. ***B) Benefits from reducing dam sedimentation.*** Interventions conducted in watersheds would be even more profitable if conducted near gullies and reservoirs, where plantations provide the highest benefits in terms of reducing sedimentation. A GIS analysis[49] of all Tunisian watersheds with reservoirs estimated the total area of forests upstream of the reservoirs of 791,700 ha or 80% of the total forest. For the purpose of the presented analysis, the same

[48] Calculations based on analysis as follows: World Bank 2010 for cork oak, stone pine, acacia, eucalyptus; Daly-Hassen et al. 2008 and Campos et al. 2008 for cork oak; Daly-Hassen 2001 for the Aleppo pine; Croitoru and Daly-Hassen 2010 for acacia.
[49] DGF/FAO 2012

assumption has been used. Estimates of the dam sedimentation have been based on the analysis conducted in Barbara and Siliana watersheds. Modelling showed that forest cover will prevent additional sedimentation of about 8 m3/ha in Barabara watershed (used as a proxy for Nord-West) and of about 12.8 m3/ha in Siliana watershed (used as a proxy for Centre-West). Considering a forest area of 1,840 ha in North-West and 709 ha in Centre-West to be rehabilitated, total avoided sedimentation is estimated at 23 793 m3. In order to convert this result in monetary terms, an average cost of TD1.9/m3[50] of replacing the storage capacity through the construction of new dams has been used. Total benefits of reducing dam siltation have been estimated at TD 45,206.

23. ***C) Benefits from rangeland rehabilitation.*** The project will support the rehabilitation of 3,875 ha of steppe rangelands and other pastoral plantations degraded due to overgrazing and over-exploitation and clearing activities. The project interventions will include: (i) improving pastoral activities by resting (mise en repos), (ii) prohibition of grazing on degraded rangelands; (iii) replanting of local pastoral species, (iv) rangeland rehabilitation through introduction of native species, (v) plantation of fodder shrubs, and (vi) creation of fodder reserves. Overall, the economic value of the benefits provided by other steppe rangelands and pastoral plantations have been estimated at TD 71/ha, including benefits from forage production, AMPs, the "remeth" (used to manufacture snuff or 'neffa'), honey production, as well as recreational[51] services and biodiversity conservation[52] within rangelands.

24. ***D)Benefits from forest roads rehabilitation***. The Project would provide financing for small scale public infrastructure facilities required to improve the overall efficiency of the supported value chains. Investments in forest access and intra-communal roads have been used as proxy for small infrastructure investments, to illustrate how better access would improve the operational efficiency of the value chain, increase the volume of collection and reduce the transport cost. Improved roads would result in cost and time savings for the village population including those not directly involved in the value chain.

25. The model is based on a proposal for rehabilitation of a forest road. In this model, the 10-km road serves three forest villages connecting them to a nearest town. The beneficiary villages have possibility to collect stone pine on about 350 ha of forest land. The nearest town has a number of zgougou processing units that are demanding additional raw materials. The rehabilitation could be completed in a period of one year. The potential benefits would accrue from the increased volume of transported forest products (stone pine) for sale and reduced transportation costs. As a result of improved access, it is assumed that transportation unit costs per km would be decreased by 10%, while the volume of tradable agricultural products would increase by 40%. Costs for road O&M are assumed to be 1% of investment costs. On the basis of the above-presented parameters, the base IRR for this model is 20% which is well above the opportunity cost of capital (using 10%). Financial parameters for the model are summarized in the (Appendix to the PAD).

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[50] Average from TD0.9/m3 for Melah dam (Bizerte) to TD2.9/m3 for Serrat dam (Kef) (Ministry of Agriculture 2014).

[51] The value of cultural services in Medenine was estimated at TD3.8 million in 2010 (Sghaier 2011), or about TD1/ha. The same value was considered for other rangelands in the absence of more accurate information

[52] Based on the government expenditure to improve biodiversity through the conservation of parks (cited above) and reserves (Oued Dkouk, BV Oued Gabes, Thelja El Kness El Gounna, Jbel Rihana, Jbel Bouramli, ec.); unit value of TD0.3/ha.

26. ***E) Benefits from Carbon sequestration.*** The project interventions are expected to reduce GHG emissions by an estimated 5.5 million tCO2eq over 20 years, which constitutes a value of US$167 million53. GHG emission calculations using the EX-ACT are done for a 6-year project and a total 20-year time frame. The assumptions include afforestation of 3,186 ha on previously degraded land, rangelands establishment on 3,875 ha, and olive trees plantations on 20,000ha. It also assumes use of sustainable land-use management practices, namely, improved agronomic practices, nutrient management, zero tillage, water management, and manure application. However, several elements that will be carbon sources (construction of irrigation and rural feeder roads, and use of gasoline) have not yet been considered in the analysis and can decrease the Project's overall mitigation potential.

27. **Costs Stream and Project estimated return.** The analysis includes the Project's costs comprising the base costs in (as extracted from the COSTAB) with their physical contingencies but without price contingencies (therefore in constant values). These costs include investment costs for all project components as well as their replacement (for infrastructure investments, equipment/materials, etc.) and recurrent costs (mainly operation and maintenance for transportation, equipment and materials). The base case Economic Internal Rate of Return (EIRR) is estimated at 14% over twenty years. The base case net present value of the Project's net benefit stream, discounted at 10%, is TD 154 million. The summary of the economic analysis is presented in the Table 2 below. Further details and calculations are in the Appendix to the PAD (in file).

**Table 9. Summary of the economic analysis (US$)**

| | PY1 | PY2 | PY3 | PY4 | PY5 | PY6 | PY7-20 |
|---|---|---|---|---|---|---|---|
| **Project costs /a** | 21,059,850 | 21,829,178 | 22,388,544 | 12,930,967 | 6,497,247 | 1,558,288 | |
| **Project benefit/b** | 785,875 | 2,715,611 | 5,668,698 | 8,714,140 | 11,075,199 | 12,124,056 | 14,223,030 |
| **Cash flow** | -20,273,975 | -19,113,566 | -16,719,845 | -4,216,827 | 4,577,952 | 10,565,768 | 14,223,030 |
| **EIRR** | 14% | | | | | | |
| **NPV** | 154,020,046 | | | | | | |

a/ Without price contingencies (in constant values).

b/ Quantifiable benefits, Component 2

28. **Sensitivity Analysis.** The sensitivity analysis assessed the effect of the main risks for the Project and the adverse situations that would arise and have an impact on the Project in terms of benefits and costs and various lags in the realization of benefits. Sensitivity analysis shows that any adverse situation would bring the EIRR below 12%. Furthermore, the base rate is slightly more sensitive to benefits shortfalls than cost increases of equal magnitude. Given the scarce resources, the program should pay higher attention to mitigation of risks that would decrease or delay benefits that the ones that would increase costs.

29. While not always avoidable, project delays can be minimized with close monitoring and by ensuring implementation does not lose momentum. To stay on budget and on schedule, the Project relies on the institutional capacity for implementing its many interlinked sub-components. Overall, the project returns are substantial even when considering key risk factors.

[53] Social cost of carbon of US$30 per tCO2eq has been used. The global carbon market price is an indication of developed countries' willingness to pay for carbon reductions.

In addition, significant additional benefits can be expected from increases in employment, which have not been included in this quantitative analysis. A substantial number of temporary but also permanent jobs will be created following increases in agricultural production and income generating activities, as well as thanks to the many civil works planned under the project. Other non-quantifiable benefits are discussed in the next section.

## V. NON-QUANTIFIABLE BENEFITS

30. The main expected net benefits that could not be quantified because of lack of data include more post-harvest storage and processing facilities; rural tracks maintenance; increase in value of agricultural production due to reduced erosion on-farm; and valuation of biodiversity corridors and tourism.

31. More analysis is needed to identify profitable investment opportunities in both on farm and off-farm processing facilities in the project area. The shortage or excess capacity of such facilities should also be investigated further. The impact from investing in such facilities is estimated based on the example of dairy processing and fruit cold storage. There is a need for improved storage facilities in the project area. Investment in storage facilities that are managed by an individual entrepreneur or a group can reduce current produce losses and provide a better opportunity to negotiate higher prices. If supported facilities have the capacity to store/process more than the incremental increased production, additional benefits can be expected. Given that there appears to be little current processing/storage capacity in the area, project support is not expected to create excess capacity in the sector. However, this should be confirmed with further data collection on current/planned capacity versus projected production levels in the project and surrounding areas.

32. Value of biodiversity corridors and benefits to tourism require different valuation methods. The value of important biodiversity hotspots and critical areas is not quantified in the current EFA model. Some specific areas are legally protected whereas others are heavily threated with encroachments from agriculture, unsustainable firewood collection, and high-value timber collection. Project interventions plan to finance zoning of critical areas and development of management plans that include existing and viable opportunities for value chain development (agriculture, agro-tourism, and forest-based production). Such critical areas can also provide biological corridors for biodiversity. To quantify the Project's incremental impact on these areas, more data are needed when the specific areas have been selected and community-driven plans have been drawn up. These data should identify the current baseline for land use and value creation in the critical areas, while the management plan should identify the values that will be created with regard to household use and agriculture and forest-based production. The value of biodiversity corridors and impact of tourism could be quantified through approaches such as travel-cost methods and willingness-to-pay surveys and other contingent valuation methods that can incorporate both use and non-use values of natural resources.

33. Benefits of institutional strengthening and capacity building are captured indirectly. As noted before, the value of capacity building among direct beneficiaries is captured in the analysis. Project-funded capacity building and institutional development at central and regional levels have direct value in that they increase the skill level in public sector institutions and enable

them to work more efficiently in providing essential and enhanced public good services. These institutional benefits are not quantified in the analysis, but are seen as critical to ensure that the other benefits can be realized when it comes to agricultural and forest-based products, land-titling and administration, and increased natural resource resilience.

## Annex 6: Productive Alliances

1. The Productive Alliance (PA) approach involves three core agents:

- ***a group of smallholder producers*** (typically united in a producer organization (CSOs, GDAs, and SMSAs);
- ***one or more buyers***, who can be active at different levels of a value chain in either commercial or institutional markets;
- ***the public sector***, which is commonly represented by the Ministry of Agriculture.

2. These three agents are connected through a business proposition, or business plan, which describes the capital and services needs of the producers, and proposes improvements that would allow them to upgrade their production capacities and skills in order to strengthen their links with the markets, i.e. the buyer(s).

3. The realization of the business plan within a PA project is typically supported through three core inputs and/or activities directed toward the producers' needs (see Figure 1 below):

(i) ***productive investments*** typically include the provision of machinery and equipment, infrastructure (on-farm or off-farm), and production inputs (e.g. seeds, fertilizer, veterinary supplies) for the producers;

(ii) ***technical assistance (TA)*** involves the delivery of extension services, technology transfers, and specialized assistance on technical matters related to production, processing, and environmental aspects, as well as market studies; and

(iii) ***business development*** focuses on strengthening producers' business development capacities in management, accounting, business administration, and marketing skills.

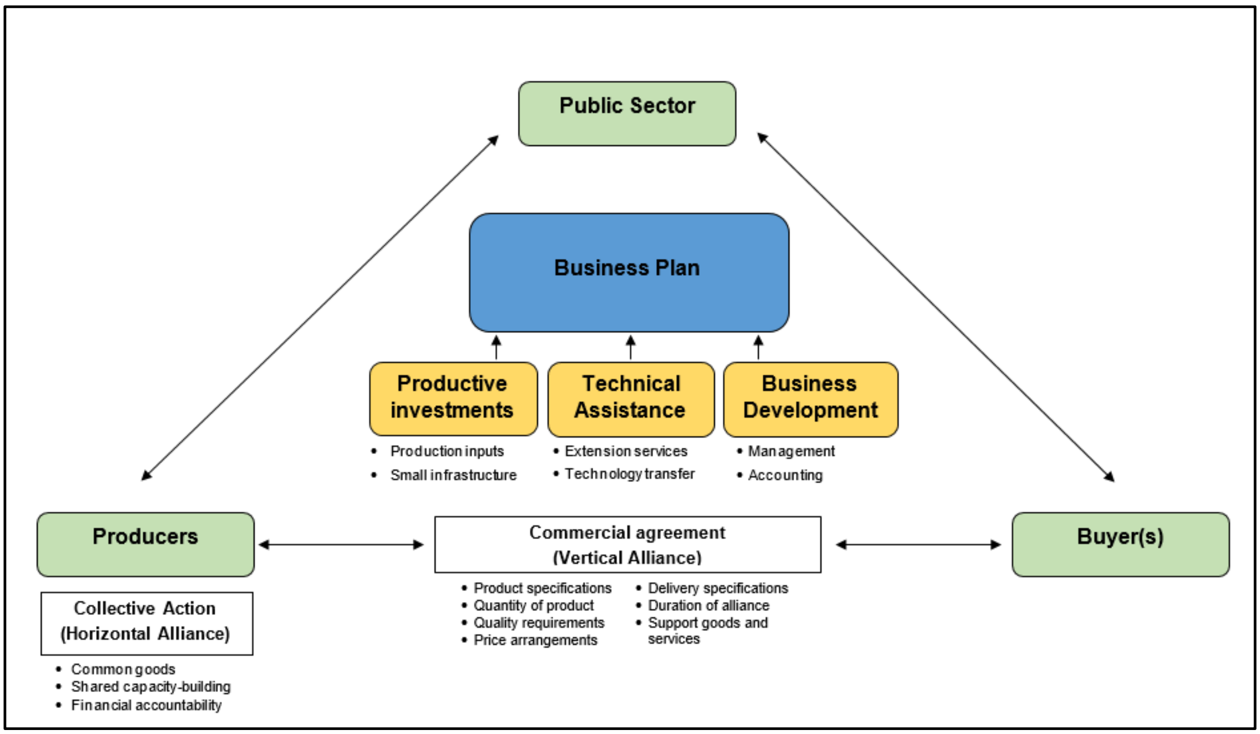
4. PA projects vary in the emphasis on each of these core inputs, but all use support goods and services to enhance the fulfillment of a business plan. One key characteristic of a PA project is that the core inputs to support the business plan are normally financed through grants provided by the public sector, which are matched by the producers.

5. In the case of this project, a firm will be contracted by the CRDA (the technical partner responsible for implementing the PAs financed by this project) to perform a ***brokerage function*** for the elaboration of commercial agreements between buyers and Producer Organizations (POs). The CRDAs, with the support of those service providers, will raise awareness of the program, and facilitate links between the POs and off-takers. Producers will be informed about the program and given encouragement to participate, whether through an existing association or an association that is newly-formed for the purpose of entering into a PA.

6. The project may also rely on a contractor who has the fiduciary responsibility to subcontract TA, and assist in procurement-related matters with POs.

7. A selection panel will review business cases received relating to PAs, to determine their suitability for inclusion in the program. Criteria for selection will be based upon a range of criteria as follows:
    - ***technical feasibility*** (e.g. production capacity and quality);
    - ***financial viability*** (e.g. financial sustainability beyond the duration of project support);
    - ***market linkage strength*** (e.g. quality of market analysis, identification of technical assistance needs, participation in marketing events);
    - ***alliance partners' capacities*** (e.g. quality of production planning, quality control, identification of production bottlenecks);
    - ***social aspects*** (e.g. potential for job creation, belonging to a disadvantaged group);
    - ***environmental sustainability*** (e.g. promotion of improved or climate-efficient production practices of the proposed subproject).

**Figure 1: The implementation process of Productive Alliances**



## Annex 7: The Value Chain Development Platform

### Context

1. The main beneficiaries of the project are vulnerable farmers, producers, self-employed service providers, and/or microfirms in lagging regions that are unable to access higher value-added markets, or achieve higher productivity, due to failures of coordination and information. Through matching grants (CP2.3), financing is provided (with progressive contribution by beneficiaries in proportion to annual revenues realized) to secure common services and facilities, and to encourage coordinated investments that would not be possible without the facilitation and support of the public sector, due to the atomized nature and vulnerability of the targeted beneficiaries.

2. In order to maximize the impact of these investments, and to mitigate political economy and capture risks, a team of experienced and trained specialists in VC development (see below) will leverage an analytically rigorous and yet strongly participatory approach aimed at delivering the following preparatory outputs: i) identification of higher value-added market segments for the targeted products (forestry resources); ii) identification of the constraints and market failures that hinder access by the beneficiary group to these markets; iii) elaboration and preparation of the strategies and actions that need to be supported by the project in order to address these constraints; and iv) identification of the champions and actors (both private and public) that will be able to successfully carry out the implementation.

3. The analytical underpinning of the approach looks at both market trends and local comparative advantages before and during the participatory part of the approach. The participatory part itself provides for a transparent and dynamic exchange between local and other relevant actors from various segments of the VC. (In some cases key relevant actors are not local: e.g. market actors, service providers, etc.) The combination of these two aspects within the team's approach not only provides a more reliable source of information on what category of investments are most likely to have positive externalities on the local economy, but also provides a potent mitigation measure for the capture and/or the unintended reinforcement of local power structures and dominance in the existing economic landscape.

4. To provide this service effectively while building local capacity to conduct such an approach, and to be able to replicate it in other regions and sectors, a common VC development platform (hereafter referred to as "the platform") will bring together a trained team of specialists.

5. Four World Bank projects[54] focused on complementary development objectives in the Northwest and Center-West regions of Tunisia, including a VC development component, will leverage this same platform. This will maximize synergies between specialized MSME support agencies (the fragmentation of their support to the private sector being one of the factors that has allowed coordination failures to persist in the lagging regions), as well as across World Bank Group projects, and will offer an integrated and coordinated VC development mechanism.

[54] As per paragraph 60, page 30 above.

**Mission of the Platform**

6. The VC development platform will not only act as an interagency "one-stop-shop" for relevant services currently offered by participating agencies; it will also provide a package of support services that include:

- ***Identifying and analyzing higher value-added markets for targeted products and services***; based upon which intelligence and advisory services to beneficiaries on higher value- added markets and their requirements will be provided;
- ***Facilitating PPDs that allow champions and motivated players to develop market-based strategies and competitive advantages***; mobilizing relevant economic and institutional actors, and promoting collaboration across the VC; business-to-business networking and cluster development activities;
- ***Identifying the investments and common services needed to tackle VC-level market failures*** (e.g. cold chain services, packaging and marketing services, etc.); decreasing intermediation costs on local MSMEs; and increasing their access to strategic market segments with higher value added and returns; facilitating and coordinating the preparation of key actions to that effect, and submitting these to adequate sources of funding and implementation;
- ***Assisting (private sector) participants of the PPDs in the preparation of applications for grants and matching grants, and/or access to finance*** through the banking sector, with the support of specialized service providers; and
- ***Identifying policies (via PPD) that can strengthen the competitiveness of the chain,*** or improve the business climate for the targeted VCs or regions as a whole.

7. These services will be provided through the analytically underpinned participatory approach detailed in the project's Manual of Operations (POM)

**Composition**

8. The platform's Operations Manual is an integral part of the Operations Manual of the EDP-3: it will define all of the management and operation procedures for the platform, including:

- An ad-hoc steering committee at the level of the CEOs of participating agencies. The steering committee will play a role similar to that of a board of directors, namely: definition of strategic orientations and high-level decision making regarding administrative and management affairs. The chairmanship of this steering committee will rotate among its members.
- A managing director who will be recruited to lead the platform, through a transparent and competitive call for applications. The successful candidate should demonstrate qualities as a proven manager capable of federating all skills needed to execute the platform project, as well as technical skills in VC development. The selection committee will be proposed by the steering committee. Subject to further analysis, it is proposed that the managing director and team leader be appointed by the President of the Government as "Commissioner," in order to strengthen his or her mandate and neutrality.

- A multidisciplinary, multiagency team, selected competitively, will mainly form the following MSME support and regional development agencies: the APIA, APII, CEPEX, ODNO, and ODCO.

In order to insure proximity to beneficiaries, a large part of the team will be decentralized, based in local offices within the targeted lagging regions. Since all recruitments will be financed by the EDP-3 (because the platform is hosted in CEPEX, EDP-3's PIU), all recruitments will comply with World Bank procurement rules and procedures.

**Legal Status**

9. The Platform builds on the VC development task force being established in CEPEX through the ongoing Third Export Development Project (P132381). This project will finance the expansion of the current team and its resources to cover forest/pastoral VCs, and to help decentralize its deployment towards a strong field-based engagement of stakeholders in the targeted landscapes (Northwest and Center-West).

10. Although geographically decentralized, the platform will be institutionally hosted in a single agency–CEPEX--based on a multilateral MOU to be signed between involved agencies before project effectiveness. This MOU will specify the governance mode of the platform (its chairman, advisory board, and operations manual, as briefly described above), as well as its objectives and performance indicators.

**Contractual relationship between the platform and the various World Bank projects involved**

11. Although the platform will be launched by the EDP3, as indicated above, it will also be co-financed by at least two other World Bank projects (potentially three). Each project will finance the operational costs of the platform in proportion to the number of VCs it chooses to target (based on each project's own criteria). An MOU will be signed between CEPEX (as institutional host for the platform) and the respective PIUs, according to TORs to be established before effectiveness, based upon which the platform will implement the activities described in CP.1.2.

12. The operating costs of the platform are divided into two categories: fixed costs (amortized), and variable costs related to the development work of each targeted VC. A unit cost per VC will be fixed by the platform, taking into account all anticipated expenses (including equipment, organization of workshops and participatory meetings, consultant and non-consultant services, etc.). The MOU between the platform - represented by CEPEX - and the project PIU will define with precision the expected services, associated costs, and specific conditions. Each participating World Bank project mentioned may start benefitting from the services of the platform after signature of such MOU. For projects financed by IBRD loans, the unit costs per VC will be standardized, with a limited variation depending on the technical specificities of each VC (such as number of players in the chain, diversity of markets, degree of complexity of the activities of the chain, geographical dispersion of the actors, etc.).

13. The VCs to be targeted in each MOU are made by the project that finances the services of the platform (i.e. the *client*), and will depend on the priorities of that project (e.g. forest products, youth employment, exports, irrigated agriculture, etc.). Once the platform delivers its investment

plans and services, the projects (PIU) will be responsible for co-financing the implementation of the identified investments. The final decision on which investments to co-finance (in a competitive selection approach) will belong to the respective projects (PIUs) – as per their POM, and based on the alignment of the submitted proposals with each project's PDO. The PIUs are responsible for implementation supervision of co-financed projects, but can also subcontract supervision and facilitation to the platform, as an additional task in the MOU.