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R2018-0112/1

May 29, 2018

<p>Closing Date: Friday, June 15, 2018 at 6 p.m.</p>

FROM: Vice President and Corporate Secretary

Tunisia - Urban Development and Local Governance Program

Program-for-Results Additional Financing

Program Paper

Attached is the Program Paper regarding a proposed additional loan to Tunisia for the Urban Development and Local Governance Program-for-Results Additional Financing (R2018-0112), which is being processed on an absence-of-objection basis.

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Report No: 124650-TN

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM PAPER

ON A

PROPOSED ADDITIONAL LOAN

IN THE AMOUNT OF EUR 107.5 MILLION
(USD 130 MILLION EQUIVALENT)

TO THE

REPUBLIC OF TUNISIA

FOR

URBAN DEVELOPMENT AND LOCAL GOVERNANCE PROGRAM

May 23, 2018

Social, Urban, Rural, and Resilience and Governance Global Practices
Middle East and North Africa

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CURRENCY EQUIVALENTS

(Exchange Rates Effective April 30, 2018)

Currency Unit = EUR
EUR 0.827 = USD1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADM	Accountability and Decision-Making Framework
AF	Additional Financing
AFD	French Development Agency
AMI	<i>Appel à manifestation d'intérêts</i> (Call for Proposal)
ANPE	<i>Agence Nationale de Protection de l'Environnement</i> (National Environmental Protection Agency)
ARRU	<i>Agence de Rénovation et de Réhabilitation Urbaine</i> (Urban Renovation and Rehabilitation Agency)
CAP	<i>Commission d'Annualisation du Programme</i> (Annualization Commission of the Program)
CBG	Capital Block Grants
CBT	Central Bank of Tunisia
CFAD	<i>Centre de Formation et d'appui à la Décentralisation</i> (Decentralization Support and Training Center)
CGSP	<i>Contrôleur Général des Services Publics</i> (Controller General of Public Services)
CoA	<i>Cour des Comptes</i> (Court of Accounts)
CPF	Country Partnership Framework
CPSCCL	<i>Caisse des Prêts et de Soutien des Collectivités Locales</i> (Municipal Development Fund)
DGCSEPPPR	<i>Direction Générale de Coordination et de Suivi de l'Exécution des Projets Publics et des Programmes Régionaux</i> (General Directorate of Coordination and Monitoring of Public Projects and Regional Programs Execution)
DLI	Disbursement-Linked Indicators
DLR	Disbursement-Linked Results
DRM	Disaster Risk Management
E&S	Environmental and Social
EIA	Environmental Impact Assessment
ESMP	Environmental and Social Management Plans
EU	European Union
FY	Fiscal Year
GFDRR	Global Facility for Disaster Reduction and Recovery

GIS	Geographic Information System
GoT	Government of Tunisia
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
HR	Human Resources
HRM	Human Resources Management
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technology
IDA	International Development Agency
IFI	International Financial Institution
IPF	Investment Project Financing
ISR	Implementation Status and Results Report
IVA	Independent Verification Agent
KfW	<i>Kreditanstalt für Wiederaufbau</i> (German development agency)
LG	Local Government
M&E	Monitoring and Evaluation
MALE	Ministry of Local Affairs and the Environment
MDA	Ministries, Departments and Agencies
MDICI	Ministry of Development, Investment, and International Cooperation
MDTF	Multi-Donor Trust Fund
MIS	Management Information Systems
MMC	Minimum Mandatory Conditions
MoU	Memorandum of Understanding
MS	Moderately Satisfactory
MTR	Mid-Term Review
ONAS	<i>Office National de l'Assainissement</i> (National Sanitation Agency)
PA	Performance Assessment
PAD	Program Appraisal Document
PAP	Program Action Plan
PAUs	<i>Plans de Développement Urbains</i> (Urban Development Plans)
PDO	Program Development Objective
PforR	Program-for-Results
POM	Program Operations Manual
PLR	Performance and Learning Review
RETF	Recipient-Executed Trust Fund
RF	Results Framework
SCD	Systematic Country Diagnostic
SECO	Swiss Economic Cooperation and Development
SP	Sub-Program
TA	Technical Assistance
TND	Tunisian Dinar
TF	Trust Fund
TUNEPS	Online Procurement System in Tunisia
UDLGP	Urban Development and Local Governance Program
WB	World Bank

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REPUBLIC OF TUNISIA

URBAN DEVELOPMENT AND LOCAL GOVERNANCE PROGRAM-FOR-RESULTS

ADDITIONAL FINANCING DATA SHEET

Basic Information – Parent (Urban Development and Local Governance – P130637)			
Program ID:	P130637	Approval Date:	July 24, 2014
Program Name:	Urban Development and Local Governance Program	Closing Date:	December 31, 2019
Product Line:	Lending	Bank/IFC Collaboration	<input checked="" type="checkbox"/> No
Team Leader:	Sabine Beddies, Ayah Mahgoub	Does this operation have an IPF component?	<input checked="" type="checkbox"/> No
Financing Instrument:	Program for Results Financing	Original Environmental Assessment Category (if IPF Component):	N/A
Practice Area (Lead):	Social, Urban, Rural and Resilience Global Practice	Current EA Category (if IPF Component):	N/A
Is this a regionally tagged project?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No (if yes indicate countries)		
Implementing Agency: Municipal Development Fund of Tunisia: Caisse des Prêts et de Soutien aux Collectivités Locales			
Basic Information – Additional Financing (Program Name – P167043)			
Program ID:	P167043	Approval Date:	June 14, 2018
Program Name:	Urban Development and Local Governance Program Additional Financing	Effectiveness Date:	120 days after signature date
Product Line:	Lending	Projected Date of Full Disbursement:	December 31, 2022
Financing Instrument:	Program-for-Results	Revised Closing Date: (if applicable/ for restructuring)	June 30, 2023

Additional Financing Type:	<input checked="" type="checkbox"/> Scale Up <input checked="" type="checkbox"/> Restructuring <input type="checkbox"/> Cost Over Run	Bank/IFC Collaboration <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Does this operation have an IPF component? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Environmental Assessment Category (if IPF Component): N/A		
Program Financing Data – Parent (Urban Development and Local Governance Program – P130637)				
Disbursement Summary (from Parent ISR), USD M				
Source of Funds	Net Commitments	Total Disbursed	Remaining Balance	Disbursed
IBRD	300	153.26	112.74	58%
IDA	-	-	-	-
Grants	-	-	-	-
Program Financing Data- Additional Financing (Program Name – P167043)				
Summary (USD Millions)		Total Amount (USD million)		
Government Program Cost:		204 ¹		
Total Operation Cost:		130		
Total Program Cost:		130		
IPF Component (if applicable):		0		
Other Costs:		0		
Total Financing:		130		
Financing Gap:		0		
Financing (USD Millions)				
Counterpart Funding:		0		
Borrower:		0		
IBRD:		130		
IDA		0		
IDA Credit:		0		
IDA Grant:		0		
Trust Funds:		0		
Commercial Financing:		0		
Cofinancing – Other Sources (IFIs, Bilaterals, Foundations):		0		
AF Client Information				
Borrower: Republic of Tunisia Responsible Agency: Ministry of Development, Investment and International Cooperation (MDICI) Contact Person: Mrs. Kalthoum Hamzaoui Telephone No.: +216 71 892 653 Fax No.: +216 71 71 799 069 Email: k.hamzaoui@mdci.gov.tn				

¹ The difference between the Government program cost and the operation cost will be financed by exchange rate gains under the parent loan and the Government's contribution already committed under the parent Program.

AF Estimated Disbursements (Bank FY/USDm)						
FY	FY19	FY20	FY21	FY22	FY23	
Annual	9	22	42.5	37.5	19	
Cumulative	9	31	73.5	111	130	
Summary of Proposed Changes						
Change in Program's Development Objectives					<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Change in Program Scope					<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Change in Results Framework					<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Change in Legal Covenants					<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Change in Loan Closing Date(s)					<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Cancellations Proposed					<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Change to Financing Plan					<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Reallocation between and/or Change in DLI					<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Change in DLI Verification Protocol					<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Change in Key Parameters (Disbursement Arrangements, Institutional Arrangements, Technical, Fiduciary, and Environmental and Social aspects)					<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Change in Safeguard Policies Triggered (if IPF Component)					<input type="checkbox"/> Yes	<input type="checkbox"/> No
Change of EA Category (if IPF Component)					<input type="checkbox"/> Yes	<input type="checkbox"/> No
Change in Program Action Plan					<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Other Change(s)					<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Program Development Objective and Description						
<p>The objectives of the Program are: (i) to strengthen Local Governments' performance to deliver municipal infrastructure, and (ii) to improve access to services in targeted disadvantaged neighborhoods.</p> <p>Program description: The Program is a subset of the Borrower's Urban Development and Local Governance program (UDLGP) designed to deliver municipal investment projects and strengthen institutional capacity of local governments (LGs), through a combination of grants and/or loans to LGs and the use of LGs' own source revenues. It supports the Government of Tunisia (GoT) to enable it to carry out the decentralization reforms codified in the Constitution and to shift from a purely "infrastructure delivery" approach to one that focuses on LG performance and accountability. To this end, the Government's program aims at: (i) strengthening LG institutional capabilities to deliver municipal services while transforming their relationship with their citizens through measures that are designed to foster participation, transparency, and accountability; and (ii) improving the municipal infrastructure service delivery to disadvantaged neighborhoods. It builds on existing LG strengths, while phasing in the changes that are designed to introduce fundamental shifts in critical, selected areas of LG institutional performance and governance that will enhance quality (through greater citizen consultation and performance incentives), accountability (through enhanced access to information on LG performance and grievance redress mechanisms), sustainability (through greater focus on asset management and local revenue generation), and management (through better human resource management, financial accounting and reporting, financial performance improvement planning and debt management, investment preparation, implementation and monitoring).</p> <p>The Program, including the Additional Financing and restructuring, consists of three Sub-Programs:</p> <p>(i) <u>Capital block grants (CBGs) for municipal infrastructure</u> - Provision of performance-based CBGs to LGs for the carrying out of municipal investment projects;</p>						

(ii)	<u>Improving access to municipal infrastructures in disadvantaged neighborhoods - Provision of Conditional Grants to LGs for the carrying out of municipal investment projects in targeted disadvantaged neighborhoods;</u>		
(iii)	<u>Capacity support for improved LG institutional development and accountability, including:</u> (a) provision of technical advisory services and training to LGs on the basis of the LGs' annual Capacity Building Plan in order to, <i>inter alia</i> , strengthen their capacity to: (i) prioritize and plan municipal investments; (ii) improve management of their own source revenues and assets; and (iii) enhance the quality of municipal investment projects, including with respect to procurement, financial management, environmental and social management; (b) preparation and update of the Performance Assessment Manual and design, operation and enhancement of functionalities of a new E-portal for LGs; (c) strengthening LGs' resource management capacity through, <i>inter alia</i> : (i) the design and implementation of human resource reforms; (ii) the design and implementation of a financial incentives system to facilitate staff redeployment; and (iii) development of human resource management tools, including an online employment mechanism; (d) strengthening LGs' transparency and accountability through, <i>inter alia</i> : (i) the provision of technical advisory services for the preparation and carrying out of audit reports benefitting from an enhanced approach as defined in the Program Operations Manual; and (ii) developing and strengthening LGs' grievance redress mechanisms.		
Compliance			
Has the parent Program been under implementation for at least 12 months		<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Have the DO and IP ratings for the parent Program been rated moderately satisfactory or better for at least the last 12 months?		<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the Program depart from the CPF in content or in other significant respects?		<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the Program require any waivers of Bank policies?		<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Have these been approved by Bank Management?		<input type="checkbox"/> Yes	<input type="checkbox"/> No
Is approval of any policy waiver sought from the Board (or MD if RETF operation is RVP approved)?		<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Has this been endorsed by Bank Management? (<i>Only applies to Board approved operations</i>)		<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Legal Covenants - Parent (Program Name – P130637)			
Change in Legal Covenant?		<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No (if yes, indicate below)	
Loan/Credit/TF	Description of Condition/Covenant	Status	Action
Legal Covenants - Additional Financing (Program Name – P167043)			
Sections and Description			
Update of Program Operations Manual (Section I.2(a) of Schedule 2 to the Legal Agreement): No later than sixty (60) days after the Effective Date, the Borrower shall update and adopt the Program Operations Manual in form and substance satisfactory to the Bank.			

Independent Verification Agent (Section I.6 of Schedule 2 to the Legal Agreement): The Borrower, through CPSCCL, shall: (a) no later than June 30, 2019, or such later date as agreed by the Bank, appoint/select and thereafter maintain, throughout the implementation of the Program, an independent verification agent with qualifications and experience and under term of reference acceptable to the Bank (“Independent Verification Agent”), to verify the data and other evidence supporting the achievement of one or more DLRs as set forth in the table of Section IV.A.2 of this Schedule; (b) (i) ensure that the Independent Verification Agent carry out verification and process(es) in accordance with the Verification Protocol; and (ii) submit to the Bank the corresponding verification reports in a timely manner and in form and substance satisfactory to the Bank.

Conditions

Type (Approval, Signing, Effectiveness or Disbursement)	Description of Condition
Disbursement	<p>No withdrawal will be made for any DLR under Categories (2) to (9), until and unless the Borrower has furnished evidence satisfactory to the Bank that said DLR has been achieved.</p> <p>The Borrower may withdraw: (i) an amount not to exceed Euro 25,000,000 as an advance; provided, however, that if the DLRs in the opinion of the Bank, are not achieved (or only partially achieved) by the Closing Date, the Borrower will refund such advance (or portion of such advance as determined by the Bank) to the Bank promptly upon notice thereof by the Bank. Except as otherwise agreed with the Borrower, the Bank will cancel the amount so refunded. Any further withdrawals requested as an advance under any Category shall be permitted only on such terms and conditions as the Bank shall specify by notice to the Borrower.</p> <p>If the Bank is not satisfied that any of the DLRs under Categories (2) to (9) has been achieved, the Bank may, at any time, by notice to the Borrower, decide, at its sole discretion, to: (a) after consultation with the Borrower, reallocate all or a portion of the proceeds of the Loan then allocated to said DLR to any other DLR; and/or (b) cancel all or a portion of the proceeds of the Loan then allocated to said DLR; all pursuant to the General Conditions.</p> <p>For any of the DLRs under Categories (3) to (9), withdrawals shall be made in accordance with the formula set out in Schedule 4 to this Agreement.</p>

Institutional Data

Contributing Practice Areas: Social, Urban, Rural and Resilience Global Practice, and Governance Global Practice

Climate Change and Disaster Screening

Has the operation been screened for short or long-term climate change and disaster risks?

☒ Yes ☐ No

Gender Tag

Does the program plan to undertake any of the following?

- a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF. **YES**
- b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment. **YES**
- c. Include Indicators in results framework to monitor outcomes from actions identified in (b). **YES**

Task Team**Bank Staff**

Name	Role	Specialization	Unit
Ayah Mahgoub	Team Leader (ADM Responsible)	Senior Urban Development Specialist	GSU11
Simon Carl O'Meally	Team Leader	Senior Public Sector Management Specialist	GGOMN
Abdoulaye Keita	Procurement Specialist	Senior Procurement Specialist	GGOPM
Anastasia Touati	Urban Development Specialist	Urban Development Specialist	GSU11
Elena Segura	Legal Adviser	Senior Counsel	LEGAM
Eric Ranjeva	Finance Officer	Finance Officer	WFACS
Ibrahim El ghandour	Public Sector Management Specialist	Research Analyst	GGOMN
Julie Biau	Urban Development Specialist	Program Analyst	GSU11
Marie Roger Augustin	Legal Adviser	Legal Analyst	LEGAM
Markus Friedrich Vorpahl	Social Safeguards Specialist	Senior Social Development Specialist	GSU05
Mehdi El Batti	Financial Management Specialist	Financial Management Analyst	GGOMN
Mohamed Adnene Bezzaouia	Environmental Safeguard Specialist	Environmental Specialist	GEN05
Narjes Jerbi	Administrative Support	Program Assistant	MNCTN
Ousmane Maurice Megnan Kolie	Financial Management Specialist	Senior Financial Management Specialist	GGOMN
Roland White	Advisor	Lead Urban Specialist	GSU12
Salim Rouhana	Urban and LG Development Specialist	Senior Urban Specialist	GSU19
Sarah Keener	Citizen Engagement and Social Development	Senior Social Development Specialist	GSU05
Victoria Bruce-Goga	Administrative Support	Program Assistant	GSU05

Extended Team

Name	Role	Specialization	Unit
Anis Wahabi	Team Member	Consultant	GSU11
Bruce Macphail	Team Member	Consultant	GSU11
Claire Azzabi	Team Member	Consultant	GSU11
Elisabeth Sherwood	Team Member	Consultant	GWA03
Iheb Sadok Chalouat	Team Member	Consultant	GSU11
Jeffrey S. Racki	Team Member	Consultant	GSU11
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Mohamed Ghourabi	Team Member	Consultant	GSU11
Nahida Sinno	Team Member	Consultant	GSU11
Noureddine Elhachami Oudghiri	Team Member	Consultant	GFA05
Sara Boughedir	Team Member	Consultant	GSU11
Wahid Kraiem	Team Member	Consultant	GSU19
Wendy Schreiber Ayres	Team Member	Consultant	GSU13

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I. SUMMARY

1. **This Program Paper seeks the approval of the Executive Directors to provide an additional loan in an amount of Euro 107.5 million (USD 130 million equivalent) to the Tunisia Urban Development and Local Governance Program (UDLGP, Loan No. 8413-TN).** The parent EUR 217 million loan (USD 300 million equivalent) was approved on July 24, 2014. The parent loan became effective on June 12, 2015, has a closing date of December 31, 2019, and has disbursed 63.43%², as of May 22, 2018. Performance of the parent operation has been rated moderately satisfactory (MS) or better over the last 12 months.
2. **The proposed Additional Financing (AF) will continue to support the decentralization program of the Government of Tunisia (GoT) that was initiated under the parent Program-for-Results operation (PforR).** The AF will assist the Government in enhancing the impact of the ongoing Program and contributing to an inclusive social contract in three interlinked ways:
 - Scaling up results by supporting increased local government (LG) performance-based capital block grants and conditional grants to accommodate expanded geographical coverage and a larger number of beneficiaries;
 - Further strengthening LG performance, systems and accountability to improve service delivery and respond to growing citizen demands; and
 - Adjusting Program design to align with the current and forthcoming decentralization reforms and to ensure sustainability.
3. **The PforR will be subject to level two restructuring which includes the following changes financed through AF:** (i) adding one Disbursement-Linked Indicator (DLI 9) and revising other DLIs to address institutional constraints to achieving results; (ii) better alignment of the grant system and approach to upgrading disadvantaged neighborhoods with the next phase of decentralization reforms; (iii) broadening and deepening the institutional development and capacity building activities, including Human Resource Management (HRM), transparency and accountability, public financial management and procurement; (iv) revising the Results Framework (RF) to capture scaled-up results; (v) modifying the Program Action Plan (PAP); and (vi) extending the parent loan closing date to June 30, 2023.

II. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING AND RESTRUCTURING

4. **Since 2011, the Tunisian political transition has made significant headway, yet further progress on economic and social opportunities is needed to consolidate the transition.** Economic growth since 2011 has been relatively sluggish; regional disparities have widened; access to services is unevenly distributed; and indicators on accountability and citizen trust have declined. As a result, social unrest continues with periodic spikes, and a wide range of stakeholders are calling for deeper and faster change towards a more inclusive social contract.
5. **Decentralization reforms remain a critical foundation of the transition in Tunisia.** The Government has undertaken a phased approach to decentralization reforms, in recognition that

² Due to exchange rate fluctuations, the latest Implementation Status and Results Report (ISR) dated January 31, 2018 shows a disbursement rate of 58%.

decentralization is a gradual and multi-faceted process, especially in a politically-contested and transitional context such as Tunisia. In 2014, the Government launched UDLGP, the parent program, to which the World Bank (WB) is providing financial and technical support through the ongoing UDLGP PforR.

Program Implementation Progress

- 6. UDLGP PforR has demonstrated satisfactory performance and is fully compliant with legal covenants.** The objectives of the Program are to: (a) strengthen the Local Governments' performance to deliver municipal infrastructure, and (b) improve access to services in targeted disadvantaged neighborhoods. The PDO indicators are on track. 76% of LGs met the performance assessment (PA) minimum score in 2017 already exceeding the PforR end target of 70%. To date, 70,535 beneficiaries have access to improved municipal infrastructure (works completed) and an additional 386,742 beneficiaries will be reached as a result of works started. All Program ratings have been rated MS or above, and actions have been identified to improve further (see a summary of implementation progress in Annex 4). Most actions in the PAP are on track or have been completed.
- 7. The achievement of the DLIs has been satisfactory.** Under DLI result area "Reform of the Capital Grant System", the Government has already achieved all DLIs and disbursement-linked results (DLRs). Under DLI result area "Strengthened Local Government Institutional Performance and Municipal Infrastructure Delivery", all eligible DLRs related to DLIs 3 and 4 have been achieved and those related to DLIs 5 and 6 have been partially achieved. Under DLI result area "Improved access to municipal infrastructure in disadvantaged neighborhoods", DLI 7 is on track to be achieved according to recent verification by the Program's independent verification agent (IVA), and all eligible DLRs related to DLI 8 have been met. The Program's DLIs are listed in Annex 2 (reflecting changes proposed by this Additional Financing).
- 8. The Program has provided support to critical systemic decentralization reforms.** Such key policy, legal and administrative reforms include: (i) the introduction of a new fiscal architecture where resources are transferred from the center to LGs based on an objective, transparent and predictable allocation formula, conditioned on LGs meeting minimum performance criteria; (ii) the establishment of institutional and administrative systems focused on ex post performance monitoring rather than an ex ante system of controls; and (iii) the introduction of transparency and accountability mechanisms to make LGs more accountable both upward (to oversight agencies) and downward (to citizens).³ Additionally, seven government institutions have been coordinating effectively to meet their responsibilities under the Program.

³ The auditing function has been successfully assumed by the Court of Accounts (CoA) and audits of more than 130 LGs have been carried out and made available to the public in 2016 and 2017. Also, many LGs have improved managing grievances according to the 2017 PA results, and an LGE-Portal has been launched to increase transparency of key LG financial and performance data.

9. The Government has taken major steps forward in its decentralization agenda in the form of the first municipal elections and the adoption of the LG Organic Law. In 2018, the Government has taken steps to further deepen the decentralization process through: (i) municipal elections (which took place on May 6, 2018); and (ii) the adoption of the LG Organic Law on April 26, 2018. The LG Organic Law specifies implementation of Chapter 7 of the Constitution, which promotes a decentralized functioning of the state and increased administrative, financial and political autonomy for LGs. It creates a three-tier structure of subnational governments composed of communes, regions, and districts. Key provisions under the new Law include: (i) operationalization of a fiscal system that gives LGs a legal status, establishes a fund to support LGs in achieving financial equilibrium, and enables greater financial management autonomy (e.g., deciding on local taxation levels) while increasing accountability (e.g., adopting audits); (ii) adoption of participatory mechanisms, such as local participation in investment planning, citizen feedback mechanisms, proactive disclosure at LG level and greater social inclusion; (iii) changes to the HRM system where LGs assume greater responsibility for staff planning and remuneration (within wage bill constraints) and elected officials play a role in the management and policy direction of the administrative system; and (iv) improved definition of the respective role of LG administrations, elected officials, and central authorities, as well as the creation of a high-level council for LGs to plan and oversee decentralization policy (see Annex 8 for further details).⁴

10. The current decentralization reform processes present challenges and opportunities. Using the Maghreb governance and political economy filter, a review of political economy issues related to decentralization (see Annex 8) identified the following key points. First, it could take several years for all the implementing regulations of the LG Organic Law to be adopted and implemented across the country. Second, the elections have resulted in the creation of municipal councils which will have an impact on accountability relations and risk raising citizen expectations without sufficient institutional capacity to respond. Third, following the elections and adoption of the Law, systemic changes will need to be generalized, notably related to the system of budgetary transfers between the central government and LGs, the HR system, and accountability and responsibility systems. Addressing institutional constraints in these areas is critical for deepening the decentralization reforms and ensuring that LG investments are implemented in an effective, equitable and accountable manner. Fourth, there is a risk that (as experienced in other countries) increased decentralization may weaken existing accountability mechanisms.

Rationale for the AF and Restructuring

11. As described below, the proposed AF and restructuring will respond to this evolving context by: (1) continuing and deepening systemic reforms; (2) addressing emerging risks; and (3) preparing the ground for the next round of reforms.

⁴ The LG Organic Law restructures the functioning of territorial governance but does not significantly transfer mandates from the central state to subnational governments. These transfers are planned to take place over the next decade through subsequent ordinary laws, on the basis of studies and consultation. It is expected that the relevant legal texts of the Law will be drafted and implemented in 2019.

- 12. First, the AF will scale up results and impact by expanding the geographical coverage, number of beneficiaries, and setting more ambitious performance targets.** The performance-based capital grants were calibrated for a population of approximately 7 million Tunisians under the parent Program. Due to communal border extensions, the Program is currently serving approximately 2.7 million more Tunisians, without a commensurate increase in Program financing.⁵ The AF will also enable scaling-up the geographical coverage under Sub-Program 2 to target more beneficiaries (at least 140,000 more) in disadvantaged neighborhoods. This will help improve equity in service access, in particular in disadvantaged neighborhoods.
- 13. Second, the AF will further strengthen LG institutional performance, systems, and accountability to improve service delivery, responding to growing citizen demands and build a more inclusive social contract.** The current capacity and accountability constraints at the LG level are likely to be further accentuated by ongoing and future reform processes as LGs are assigned increased functions and responsibilities. Diagnostic work shows that three strategic areas for institutional development are critical to achieving greater progress towards the PDO: (i) enhancement of performance incentives, via the annual LG performance assessment (PA), to make it more results-oriented and ambitious; (ii) strengthening performance and accountability by deepening progress towards sound public financial management, transparency and citizen engagement, including drawing on technological solutions; and (iii) strengthening the ability of LGs to address pressing needs for alleviating human resource constraints.
- 14. Third, the AF will adjust the Program design to align with the next round of decentralization reforms in Tunisia and to ensure sustainability.** The revised activities under the AF enable a deepening of structural reforms, and are aligned with the principles outlined in the LG Organic Law, helping prepare the groundwork for its effective implementation. The AF will help further align the intergovernmental fiscal transfer system with the Government's decentralization framework, strengthening administrative transparency, accountability, and HR capacity. It will also help train newly elected officials. Furthermore, the AF will have a strong focus on Program sustainability through: (1) its greater emphasis on LG institutional development; (2) alignment with Government planning processes; (3) further building LG financial capacities to transition towards greater own source revenues for LGs; and (4) bridging the Government's transition to deeper institutional reforms, including a higher future level of transfers to LGs.
- 15. Fourth, the timing of the AF is appropriate given the recent adoption of the LG Organic Law and the recent local elections.** The proposed activities under the AF will enable LG financing and system strengthening while the Government goes through its transition towards further decentralization. No critical Program adjustments are expected given the adoption of the Law and municipal elections.

⁵ While the population served by Program LGs has increased, in practice, LGs have continued programming investments to benefit the original population in light of no increase in relevant financing to date.

- 16. The consolidation of a more decentralized system of governance, local development, and service delivery is fully aligned with the World Bank Group strategic priorities.** The operation is aligned with the World Bank Group's (WBG) twin goals and contributes to the implementation of the WBG MNA regional strategy pillar on renewing the social contract. This will be achieved by: (i) addressing drivers of poverty through investments in priority local services; (ii) improving equity and boosting shared prosperity through investments in underdeveloped regions and investments targeting disadvantaged groups; and (iii) increasing inclusion and the quality of service delivery by improving financial management, strengthening accountable and transparent institutions capable of delivering quality infrastructure and services, and improving citizen participation and equity in service delivery at the local level. The operation also contributes directly to the following objectives outlined in the WBG Country Partnership Framework and Performance and Learning Review for Tunisia: (i) improving development in lagging regions; (ii) strengthening social and economic inclusion, including access to services; and (iii) deepening the new social contract, including by building trust between citizens and local authorities.
- 17. The AF support to the Government decentralization agenda will be complemented by other development partners' activities.** The Program has also served as a platform through which the Government and WB have been able to coordinate with other development partners active in the fields of urban development and local governance assistance. Several of Tunisia's development partners have provided parallel financing to support the Government's decentralization program using the broader framework introduced through the UDLGP. Donors are focusing on the following critical areas: (i) the EU, KfW and AFD are supporting the new LGs and extension areas; (ii) various partners and NGOs, such as the UNDP, are supporting the electoral and political dimension of decentralization; and (iii) a range of areas are supported by the WB-administered multi-donor trust fund ("Moussanada").

III. PROPOSED CHANGES

- 18. The PDO remains the same, however, one PDO-level indicator, most of the DLIs and several intermediate results indicators have been revised.** The PDO and PDO-level indicators remain technically sound and relevant to the Program. Given the modification to the LG PA to make the assessment more results-oriented, the threshold score will be revised and therefore a modest revision to the formulation of PDO-level indicator 1 has been introduced, aligning this indicator with the formulation of DLI 4. Specific DLIs and intermediate results indicators in the RF are revised with more ambitious targets. The DLI revisions are discussed below, and changes to intermediate results indicators are presented in Annex 1.
- 19. The Program scope vis-à-vis the broader Government program will only change in terms of timeframe, but not in terms of geographic boundaries.** The Program now finances the same 264 LGs explicitly identified in the parent loan, but the boundaries of several of the original 264 LGs have expanded, and eight new LGs have been created by splitting six of the original 264 LGs. Although it does not change the Program scope vis-à-vis the broader Government program, the expansion of geographic boundaries has amounted to an inclusion of an additional approximately 2.7 million Tunisians. The closing date of the Program will

be extended from December 31, 2019 until June 30, 2023, to allow adequate time for quality implementation of the restructured Program and achievement of new and revised DLI results.

20. The AF will support scaled-up results through the changes summarized below, which have been validated in consultation with all relevant Tunisian stakeholders. These changes build on key lessons learnt (Table 1) and the rationale for such changes is explained in more detail in Annex 4:

- (i) Sub-Program 1 (unconditional performance-based capital grant).** The AF will support the scaling up of the performance-based capital grants to approximately USD 50 million per year and extending its financing for three years. In tandem, the PA system that conditions the access to this grant will be revised to include indicators that incentivize desired outputs and outcomes, not just processes. The proposed shift in performance indicators is outlined in Annex 5 and includes indicators that encourage execution of annual investment plans, citizen engagement, stronger staffing and recruitment planning, and improved financial management and operations and maintenance (O&M) outcomes. This represents the shift of a LG PA system to a greater results-orientation. Additionally, a new tranche-based mechanism for funds transfers will be introduced to improve tracking of implementation with a first tranche to be disbursed on the basis of performance and the second tranche on the basis of investment plan execution.
- (ii) Sub-Program 2 (improving access to municipal infrastructure in disadvantaged neighborhoods).** The AF will scale up support to upgrading municipal infrastructures in disadvantaged neighborhoods not included in the parent Program. This scale-up will be accompanied by a structural shift in the way the funds are allocated, promoting better alignment with the Government's decentralization framework. The proposed shift in modality will be: (i) LGs will choose whether to access the funds through a call for expressions of interest; (ii) selection of LGs to access Sub-Program 2 funds will be based on transparent selection criteria; (iii) disbursements to LGs implementing their projects without delegating execution to the Urban Renovation and Rehabilitation Agency (ARRU) will be made through advance payments to ensure prompt payment of contractors; and (iv) a matching requirement (calibrated based on LG capabilities) will be introduced to incentivize LG investment in disadvantaged neighborhoods (which they currently leave for the central government to finance). The matching element will be adjusted to the capacity of LGs, based on criteria to be established subsequently by the Annualization Commission of the Program (CAP), to ensure that it does not disfavor LGs with smaller revenue bases. Further, the Government seeks to incentivize upgrading large disadvantaged neighborhoods through more integrated projects which could include investing in socio-economic infrastructure (e.g. local libraries, youth centers, and areas for the promotion of socio-economic activities).
- (iii) Sub-Program 3 (capacity support for improved LG institutional development and accountability).** New activities and expenditures were identified to further address institutional constraints to achievement of the PDO, particularly in terms of LG human resources, financial management, procurement and accounting practices, and citizen feedback and access to information. The key changes are: (1) putting greater emphasis on

institutional development to ensure impact and sustainability, as reflected in increasing the budget envelope in these areas; (2) strengthening financial resource management capacity, execution and oversight, and strengthening of procurement practices; (3) strengthening transparency and accountability through improved open data (through the e-portal) and deepened citizen engagement (through strengthened grievance redress and user feedback); (4) addressing critical HR capacity and staffing constraints; and (5) supporting the piloting of technologies in three ways: (a) open data through the e-portal; (b) applying ICT to grievance redress and citizen feedback mechanisms; and (c) moving towards an ICT/data-driven HR approach to transform HRM. The only change proposed for ongoing activities relates to making measurement of progress more stringent by revising DLI 6 (Annex 2).

21. In sum, the restructured Program supported by the AF continues to be transformational in terms of deepening decentralization and municipal service delivery in Tunisia by strengthening institutional capacity, execution of infrastructure, and the incentive system. It does so by: (i) institutionalizing an enhanced system of inter-governmental fiscal transfers built on enhanced upward (state) and downward (citizen) accountability, (ii) deepening performance management-based local service delivery through an enhanced LG performance incentive system, (iii) incentivizing LGs to be more inclusive through greater focus on lagging areas and groups, (iv) addressing the institutional constraints to service delivery, including in terms of HR; and (v) strengthening LG incentives to be responsive and accountable by increasing avenues for citizen engagement and scrutiny.

Table 1: Key Lessons from UDLGP Implementation

Lesson	Proposed Changes	Changes Integrated
Overall lessons		
Evolving political context may slow down decentralization reforms; but recent steps have shown commitment towards deeper reform (elections and LG Organic Law).	Enhance support to strengthening institutional development and accountability systems; continue supporting LGs to deliver on existing and new functions.	A new DLI 9 on HRM has been added and other DLIs have been revised; new activities to be supported under the Program.
While significant progress has been achieved by most LGs in terms of improving compliance with processes, institutional constraints and performance deficiencies identified in certain other areas (e.g. HRM or financial management) limit Program impact.	Greater emphasis on incentivizing central government and LG improvements in core results areas, and new targeted activities to enhance results and sustainability.	A new DLI 9 on HRM has been added and other DLIs have been revised. The PA framework will be strengthened toward a more result-oriented approach and new complementary actions have been included in the PAP. New targeted TA activities will be delivered.
Sub-Program 1: unconditional performance-based capital grant		
The introduction of performance-based unconditional CBGs has had a positive impact on LGs' performance but relatively low amount of grant allocations could limit the incentive for high performance and LG ability to respond to infrastructure and service delivery gaps.	Increase CBG levels and revise the distribution formula to incentivize higher LG performance.	Overall, CBG levels under the scaled-up Program are approximately triple those of year 1 of the parent Program and the updated distribution formula will include a bonus for top performers on the PA.

Almost full compliance of LGs to fundamental requirements for good governance (through minimum mandatory conditions) and sharp increase in PA results; but process-oriented assessment not capturing desired outputs and outcomes.	Update PA system to incentivize the achievement of desired outputs and outcomes and not just processes.	PA indicators will be revised to mainly comprise output and outcome indicators.
<i>Sub-Program 2: improving access to municipal infrastructure in disadvantaged neighborhoods</i>		
Underequipped neighborhoods were provided with vital municipal infrastructure, increasing basic services in the target areas; but selection process of neighborhoods and financing could be improved.	Decentralize the selection process of projects and make a transition towards more efficient financing in addressing under-equipment of Tunisia's territories.	The new selection process for investments will comprise an open call for proposals through which LGs will choose to apply and will be awarded funds based on objective and transparent criteria.
<i>Sub-Program 3: capacity building and institutional development</i>		
Relatively weak execution capabilities; and noted deficiencies in audit quality and follow-up.	Shift to greater audit quality and risk-based approach; deepened accounting reforms.	DLI 8 has been revised plus relevant TA and PAP actions have been strengthened.
Increased citizen demands on LGs coupled with weaknesses in LG transparency and accountability.	Strengthened emphasis on transparency, citizen-friendly information and opportunities for public engagement.	DLI 8 has been revised to incentivize improved transparency and disclosure of information. TA and PAP actions have also been strengthened to deepen citizen engagement, including through applying ICT tools to strengthen grievance redress and citizen feedback mechanisms.
Relatively poor HR staffing levels and competencies undermine LG functioning.	Support the strategic staffing process and strengthening systems for improved HR management.	New DLI 9 introduced alongside PAP actions and a range of TA.

25. A new DLI and changes to existing DLIs are introduced to strengthen the Program's results in priority areas. The changes, summarized in Table 2 below, serve to: (i) further focus the Government on addressing constraints to the fuller achievement of the PDO; and (ii) incentivize deeper results and adoption of critical reforms, which is reflected in changes in the targets and changes in the financing assigned to each DLR.

26. One further notable change is the increase in financial incentives applied to critical institutional development results. Given the sharpened focus on addressing the institutional constraints mentioned above, such as HR issues, financial management and accounting practices, and citizen feedback and access to information, USD 29.5 million (23% of the AF) has been allocated to DLI 8 on improving transparency and access to information and DLI 9 to increase the financial incentives applied to institutional development results singled out in those DLIs (in addition to the incentives for institutional improvements built into the performance-based fiscal transfer system). There has also been a change in sub-program expenditure structure to reflect this strengthened emphasis from a ratio of 97% (SP1 and 2) to 3% (SP3) (parent loan), to a ratio of 93% (SP1 and 2) to 5% (SP3) (parent loan plus AF).

Additionally, the amount allocated to DLIs 5 and 6, which capture the execution performance and capacity building of LGs, represents USD 36.5 million (28% of the AF), whereas they represented 23% of the parent loan.

Table 2: Summary of DLI Changes

DLI	Revision Made
DLI 2: timely communication and transfers to LGs of unconditional CBGs.	Given strong performance to date, the amounts assigned to the DLRs have been reduced.
DLI 3: percentage of LGs that met the Minimum Mandatory Conditions and received CBGs.	Given strong performance to date and the fact that LGs already have an incentive to comply with MMCs as they are a prerequisite to obtain the unconditional grants under Sub-Program 1, the amounts assigned to the DLRs have been reduced.
DLI 4: percentage of LGs that have met the threshold PA scores.	The annual target will be raised to 70% for 2019 (unchanged PA system) and DLR targets have been added for the subsequent years for the revised more results-oriented PA system. In 2018, the publication of the Government order pertaining to the PA revision will be introduced under DLI 4.
DLI 5: percentage of LGs that have executed their Annual Investment Plans on schedule in terms of expenditures.	Given significant difference between the baseline performance after a year of implementation and the DLI 5 targets, the end-of-Program target will remain 80%, but the targets for years between now and the end of the Program have been adjusted in accordance with the recommendations of the Program midterm review. The percentage completion target has been reduced for the upcoming DLRs (60% in 2019, and 70% in 2020-2021) in order to better reflect baseline data for this DLI.
DLI 6: percentage of LGs that have received capacity building support in accordance with their annual capacity development plan.	To place additional emphasis on the demand-driven TA activities, only LGs that receive a minimum threshold of their requested demand-driven TA activities as well as 70% of their requested training will be considered, so that the DLI cannot be fully achieved through classroom-based training alone.
DLI 7: targeted number of people living in targeted disadvantaged neighborhoods have benefited from improved municipal infrastructure.	The original end-Program target of 500,000 will be increased to 640,000. The selection of the new target LGs and neighborhoods will be conducted through the call for expression of interest and the use of transparent and objective criteria.
DLI 8: improving transparency and access to information, financial management and reporting.	Revised indicators will be introduced and the DLI will be split into two parts. <ul style="list-style-type: none"> ➤ Part 8a will focus on improving transparency, proactive disclosure of information and data. It will incentivize the publication of LG information to encourage citizen engagement and accountability. ➤ Part 8b will focus on strengthening audit quality and follow-up for enhanced accountability. All LGs will be audited by 2019. From CY 2020, CoA will follow a risk-based selection process, agreed with the WB, to select LGs whose audit findings and recommendations will undergo follow-up review by the CoA.
DLI 9 (new DLI): improving human resources management	New DLI to focus on HRM which was identified as a critical binding constraint. DLI will be split into two parts: <ul style="list-style-type: none"> ➤ Part 9a incentivizing improved staffing of key functions in priority LGs. ➤ Part 9b incentivizing HR structural reform to facilitate better mobility to enable staffing, including through an online job market, and to facilitate the development of sustainable and higher-performing mechanisms for LG HRM.

27. Program Action Plan. The Program results are supported by critical actions summarized in the modified Program Action Plan (see Annex 7). Nine of the fourteen actions in the Program Action Plan of the parent PforR have been achieved. Following the midterm review of the Program, a recommendation was made to cancel Program Action #13 on LGs preparing and implementing annual action plans to address audit findings, as it has already been incorporated within the framework of Sub-Program 1 actions. Program Action #14 will be dropped and replaced by a new action that is oriented towards LGs improving their performance with regards to maintaining a functional grievances redress mechanism (GRM). New and follow-up activities are proposed in the updated PAP to reflect the evolving Program needs and the new areas of focus under the AF.

28. Implementation arrangements. Program implementation arrangements (implementing agencies, technical, fiduciary, environmental and social, disbursements, monitoring and verification process) remain overall the same as under the parent PforR.⁶ Strategic partnerships, through an MoU, will be established where necessary with other key stakeholders relevant to AF activities. Notably, an MoU would be signed with the Directorate of Civil Service Reform to enlist its support for the HRM actions.

29. Expenditure to date and efficiency⁷. As part of the Program, the Government committed to transfer to LGs approximately USD 353 million⁸ equivalent in unconditional and conditional grants through 2019. As of March 31, 2018, the MoF transferred TND 349 million to the CPSCS for unconditional grants destined for LGs. By the end of December 2016, the first full year of Program implementation, LGs reported executing 42%⁹ of their total budgets, including financing from the conditional and unconditional grants as well as all other resources made available under the Government program, such as loans and other grants, in addition to LG own source revenues. Evidence from a study carried out by an independent consultant, based on a sample of 61 LGs, shows that as of September 2017, approximately 60%¹⁰ of the 2016 resources mobilized for municipal investments (excluding disadvantaged neighborhood projects) were committed or spent on works started. As of March 2018, the CPSCS reported that 67% of the 2015-2017 conditional grant resources were committed or spent on works started. To help monitor progress in use of grants more systematically and accurately, the WB will continue to provide technical assistance to the Government in terms of strengthening the CPSCS M&E system. Additionally, the WB will provide technical support to help the

⁶ In 2016, subnational government oversight, including line ministry oversight of the Program's implementation agency moved from the Ministry of Interior to MALE (for further details on this shift, please refer to Annex 5). This arrangement has proven effective to date.

⁷ For the expenditure-to-date analysis, the team used the exchange rate under the parent Program (TND 1 = USD 0.63).

⁸ This includes capital block grants transfers to LGs and conditional capital grants committed to LGs. In 2016 and 2017, the MoF transferred to the CPSCS TND 107 million per year for conditional and unconditional grants. In 2018, this number increased to TND 135 million. This brings the total to TND 349M. Given exchange rate fluctuations over that time period, the amount is indicated only in TND.

⁹ This is a number computed based on numbers presented by 244 LGs in their annual investment plans' execution reports.

¹⁰ This percentage includes capital block grants and conditional capital grants to LGs, as well as other resources mobilized by LGs including own source revenues and CPSCS loans.

Government in accelerating the application of international accounting standards that would provide more detailed information on LG expenditures.

30. Program Expenditure Framework. The total Program expenditures, from 2020 to 2023 are estimated to be about USD 204 million, of which USD 130 million will be funded from the AF and the remainder financed from loan proceeds from the parent loan and by the Government. The Program Expenditure Framework will be reflected in the Ministry of Local Affairs' budget allocation included within the General Budget of the State. The Program Expenditure Framework is aligned with Government priorities and acceptable in terms of classification, sustainability and predictability. The main risk of the Program in this regard is related to the variable capacity of LGs to: (i) prepare and execute investment projects; and (ii) mobilize their own revenues. Mitigation measures to address these risks have been incorporated in the restructured Program's design. To this end, Sub-Program 3 offers capacity building and technical support to the LGs. Table 3 below presents the Program Expenditure Framework and Table 4 presents the corresponding changes to overall Program boundaries.

Table 3: Program Expenditure Framework for 2020-2023 period¹¹ *

Sub-Program 1 Municipal infrastructure delivery	Sub-Program 2 Improving access to municipal infrastructure in disadvantaged neighborhoods	Sub-Program 3 Capacity support for improved LG institutional development and accountability
<i>TND 690 million (USD 286 million)</i>	<i>TND 70 million (USD 30 million)</i>	<i>TND 31.5 million (USD 13 million)</i>
Capital Block Grants AF: TND 240 million (USD100 million); and parent loan and government contribution: TND 135 million (USD 57.5 million) Formula-based grant allocation to LGs in 2020 - 2022, subject to their meeting MMCs and achieving satisfactory performance scores annually.	Conditional Capital Grants AF: TND 50 million (USD22 million); and parent loan/government contribution: TND 20 million (USD 8 million) Grant allocation to LGs for specified investments in line with national priorities (currently for local infrastructure in disadvantaged neighborhoods), subject to selection on the basis of transparent criteria including meeting a MMC grant access requirement, and matching grant requirement.	Capacity-building and technical support AF: TND 19.3 million (USD 8 million); and parent loan/government contribution: TND 12 million (USD 5 million) (1) Classroom and demand-based capacity support to be provided to LGs on a just-in-time basis. (2) Support to the Program's MDAs i.e. ministries, departments and agencies involved in the implementation of Program activities and new HR, PFM and accountability activities.
LG Contribution TND 150 million (estimate) (USD64 million) ¹² LG contributions to investments from their net savings.		
Municipal investment loans TND 165 million (estimate) (USD		

¹¹ For the Program Expenditure Framework, the current exchange rate was used (TND 1= USD 0.42). An unallocated amount of TND 10 million (USD 4 million) is also available across all three Sub-Programs.

¹² In 2017, the LG contribution to investments from their own source revenue totaled TND 140 million. Based on this, it is estimated that in 2020 and 2021, LG contribution could average at least TND 100 million per year.

69 million) ¹³ Investment loans to LGs from the CPSCL.		
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* Given exchange rate fluctuations, the dinar amounts are subject to change.

Table 4: Program Financing 2016-2023 (in USD million)¹⁴

Financing Source	Original Program	AF Program	Total
BORROWER	63	0	63
IBRD	300	130	430
OTHER	0	0	0
TOTAL	363	130	493

IV. APPRAISAL SUMMARY

Technical Assessment

31. Municipal Infrastructure Delivery (Sub-Program 1). The core institutional reforms related to the establishment of a performance-based system of budgetary transfers from the central government to LGs (PAP Action #1 and #2) have been completed. The PA manual and training for the Controller General of Public Services (CGSP) have also been completed (PAP Action #3). The Government has thus far transferred the CBGs agreed in the original expenditure framework in a timely fashion. Given the success of these first transfer cycles, the overall design of Sub-Program 1 will remain unchanged under the AF, i.e. the access to the grant would still be conditioned on meeting MMCs and a minimum score on the PA. Nonetheless, the size of the grant will be increased to respond to growing local needs and incentivize better performance by LGs, and the PA will be enhanced to reflect more ambitious goals to be met by LGs. The details are as follows:

- a. **Calibrating the grant size.** By design, the parent Program did not envisage increasing the CBG until the proposed reforms were put in place, tested and made operational. Therefore, in 2016 and 2017, the CBG per capita was limited to USD 2.3. The original design also foresaw doubling the CBG in 2018. However, due to communal border extensions resulting in the increased population coverage from 7.0 to 9.7 million, the CBG in 2018 rose only to USD 3.3 per capita instead of USD 4.6 – the initial level agreed on. Therefore, the Government seeks to increase the CBG to approximately USD 5.2 per capita from 2019 onward. This increase in the size of the grant is considered adequate given the trade-off between the growing needs at the local level and LG absorptive capacity.
- b. **Strengthening the PA system.** The initial focus of the Program was to establish systems that would serve as the institutional and fiscal platform for delivering the reforms required to implement the decentralization policy. However, the promising performance outcomes have made it clear that it is timely to propose a reorientation of the PA towards more

¹³ This has been estimated based on the fact that in 2016 and 2017, loans extended from the CPSCL to LGs averaged around TND 50 million per year.

¹⁴ For the Program boundaries analysis, the exchange rate under the parent Program (TND 1 = USD 0.63) was used.

ambitious results, moving away from a mostly process-based assessment. The final amount of CBG to be distributed to LG relative to its PA score will be modified according to the proposal made by the Government at the Program midterm review (Annex 4).

32. Improved access to municipal infrastructure in underequipped neighborhoods (Sub-Program 2). Although Sub-Program 2 experienced some initial delays, its target of 500,000 beneficiaries is expected to be reached. In addition, the measures pertaining to supporting the implementation of Sub-Program 2 in the PAP have been carried out in a satisfactory manner. To build on this success and further deepen decentralization and urban development reforms, the following opportunities for enhancing results have been identified:

- a. **Under the original design of Sub-Program 2, the selection of disadvantaged neighborhoods was made by the central Government (following consultations organized by governors at the regional level).** In contrast, the decision to undertake neighborhood improvements – and the selection of target neighborhoods – should, under a decentralized system, be at the discretion of the LG. As such, the support to disadvantaged neighborhoods will shift to a system that incentivizes LGs to deliver against national and local priorities.
- b. **Ensuring the objectivity of the selection process.** Based on the success of the call for proposal process for the 2018 additional tranche piloted during Program implementation, discussions were held with the counterparts to fully adopt and systematize this approach and to define objective and transparent eligibility and selection criteria. The final list of criteria is to be included in the updated Program Operations Manual (POM). These criteria were thoroughly discussed with the counterparts and will include:
 - i. *for the eligibility criteria:* MMCs; financial match; minimum number of housing units and minimum population density per neighborhood; absence of land issues; and
 - ii. *for the selection criteria:* score on a local development index (drawn from the Government's Regional Development Index) and/or neighborhood population.
- c. **Based on experience-to-date, it was concluded that projects in disadvantaged neighborhoods should be delivered in a more integrated manner.** Therefore, the three projects which will benefit from larger funding grants will include socio-economic infrastructure in addition to the provision of other municipal services, with the objective of supporting a more integrated social and economic development.

33. LG capacity and system strengthening (Sub-Program 3). A diagnostic was undertaken, including analysis of existing data, LG performance assessment data, institutional and political economy analysis and multiple interviews with stakeholders. As a result of this technical analysis, a set of new measures were identified. All new measures have been technically assessed, as outlined in the technical addendum (Annex 4). The strategic relevance and technical soundness of these additional measures have been confirmed, and capacity strengthening measures have been identified.

Fiduciary Assessment

34. The fiduciary risk is substantial due to remaining fiduciary capacity gaps. The main gaps are identified in Annex 5 and include: (i) at a national level, delays at various stages of the public procurement process in Tunisia, and low participation by suppliers/contractors in public procurement proceedings; and (ii) at a Program level, the need to improve the reliability and the timely preparation of the LGs' financial statements and the quality of the external audit. In order to further address these gaps, additional measures will be implemented to improve the fiduciary performance of the Program, and Sub-Program 3 will include capacity building activities to improve procurement and financial management. These additions notwithstanding, the assessment has shown that fiduciary (including procurement) arrangements put in place for the parent Program are still relevant and adequate.

Environmental and Social Assessments

35. The Program implementing entities and environmental and social regulations remain consistent with those in the original loan. The environmental and social impacts of the Program would not change substantially because of the scale-up of the unconditional capital grant transfers to LGs with extension of communal borders and increase in their population coverage from approximately 7.0 million to 9.7 million.

36. The Program environmental and social management systems are deemed MS. The MS rating is due to initial delays with the development of Environmental and Social Management Plans (ESMPs) by LGs. To address this situation, it was agreed to streamline the reporting on environmental and social aspects and put in place a monitoring system for reporting on land acquisition, to improve reporting going forward. Additional measures are included in the Addendum to the ESSA, summarized in Annex 6.

37. Publication and public consultation. The Addendum to ESSA has been consulted during a meeting convened by the CPSCL and the World Bank on April 5, 2018 and the final version was disclosed on the Bank's external website and in-country, on CPSCL's website in April 2018.

38. Risk profile of the operation. The overall risk remains High. For the risk rating and revisions to any ratings as a result of the AF, please refer to the Systematic Operation Risk-Rating Tool (SORT) included in Annex 3. The risks rated Substantial or High are briefly described below:

- a. **Political and Governance:** The risk is high as Tunisia's political and institutional landscape is still volatile. The risks have been assessed using the Maghreb governance and political economy filter. The risks are mitigated by the fact that: (a) the Program focuses heavily on the public administration's Director Generals (high-level civil servants) who tend to retain their post even after ministerial reshuffles, which helps ensure continuity in the face of political fluidity; (b) the implementing institutions in this Program have shown good stability during Program implementation: central agencies (CPSCL, CGSP, CoA, MALE) have experienced no discontinuity in accomplishing their mission, including those related to the parent Program; and (c) by focusing on LGs' administration and anticipating arrival of elected local officials, the design of the Program ensured that political novelties

incurred by local elections will have limited destabilizing effects, while trying to optimize potential positive effects.

- b. **Macroeconomic:** This risk is high given that the macroeconomic outlook remains very fragile, highlighting the importance of strong policy anchors and international support. The Government is committed to fiscal consolidation and macroeconomic stability, including through an IMF program. The IMF program moved to quarterly reviews with the aim to improve program monitoring and performance given the elevated macroeconomic vulnerabilities. The World Bank and several other bilateral and multilateral institutions (such as the EU, AfDB, KfW, and AFD) are supporting the Government technically and financially to accelerate the implementation of structural reforms.
- c. **Sector Strategies and Policies:** The risk is substantial since the sector is in the midst of a long-term reform agenda. This risk has been addressed by anticipating reforms (on the basis of the recently approved LG Organic Law) and integrating them in the Program's design.
- d. **Technical Design of Program:** The risk is substantial as LGs' capacity to plan and execute investments is an area of ongoing improvement and given new ambitious additions to the results sought under the Program. While almost all LGs have adopted Annual Investment Plans (AIPs) on time and through due processes, the quality of these AIPs have sometimes been suboptimal, including because of unrealistic implementation timeframes. This in turn affected execution rates. In addition, monitoring systems of capital investment resources have been limited to date. Despite these impediments, there are indications that investment execution rates have been relatively acceptable since the beginning of the Program. To address these risks, incentives for better reporting on capital investment use and better AIP execution will be introduced in the updated PA system. Technical assistance will also continue to be deployed to support CPSCL M&E capacity, and communes' abilities to properly plan and execute AIPs. Finally, the switch to mandatory multi-year investment planning provided by the LG Organic Law will also help improve the quality of AIPs. Furthermore, Sub-Program 3 has been significantly enhanced to increase capacity support to LGs and relevant MDAs, designed to address the observed risks.
- e. **Institutional Capacity for Implementation and Sustainability:** The risk is high. In addition to the risks and mitigation measures discussed in paragraph (d) above, other risks include CoA capacity to achieve its auditing mission. While this entity has been satisfactorily meeting the Program's objectives, it faces significant challenges. Technical and material support will be provided both under the Program and through Moussanada Trust Fund to reduce these risks. Sustainability risks mainly lie in the long-term nature of decentralization reforms, for which the mitigation strategy includes introducing or increasing incentives to operationalize expected reforms.
- f. **Fiduciary:** The risk remains substantial due to identified gaps. Nevertheless, the fiduciary arrangements put in place for the Program have been deemed relevant. Additional measures highlighted in the World Bank supervision reports and the CoA audit reports will be implemented to improve the fiduciary performance of the Program. These mainly relate to the need to improve: (i) the reliability and the timely preparation of the LGs' financial statements, and (ii) the quality of the external audit. In addition, risks might occur related to suboptimal reporting and monitoring related to the CBG, and changes related to the adoption of implementation decrees for the LG Organic Law, which will elaborate on the constitutional principle of switching to ex post controls on all activities of LGs. This risk

is mitigated by the support to CBG reporting and monitoring detailed in the previous paragraph. Moreover, procurement risks will be further addressed by strengthened capacity building support to LGs. Additionally, technical support to auditing processes and functions will be deployed under the Program and through the Moussanada Trust Fund. This includes support to CoA auditing capabilities, as well as support to LGs transitioning to a double-entry bookkeeping accounting system, as provided by the LG Organic Law. The shift in Sub-Program 2 grant modalities also incurs new elements of fiduciary risks. The new modalities proposed, notably the transparent criteria to select beneficiary LGs, have been designed to mitigate fiduciary risks under Sub-Program 2.

- g. **Environmental and Social:** The risk rating has been increased from moderate to substantial. Mitigation measures include: (i) new and revised actions included in the PAP (Annex 7) in response to the gaps identified in the revised ESSA, to which the addendum was published in April 2018 on the Bank's external website and on the CPSCL's website; (ii) reinforcement of the capacity strengthening activities linked to the different steps of social and environmental management of projects; and (iii) upgrading of the national system of environment management which is expected to materialize in the coming months through the passing of the decree on Environmental Impact Studies (the draft has been deemed by the Bank as filling several gaps of the existing system).

V. WORLD BANK CORPORATE COMMITMENTS

Gender

39. The World Bank Systematic Country Diagnostic for Tunisia (June 2015) identifies women's economic empowerment as paramount to achieving an open and inclusive society and to accelerating growth; additionally, in spite of significant progress, women are still under-represented in managerial positions within the Tunisian civil service. The SCD explains that while Tunisia is at the forefront of gender equality in the MENA region, particularly in terms of women's education and political participation, there is a wide and persistent gender gap in economic activity. This gap has shown little progress over time, as the female labor force participation rate increased by only one percentage point between 2000 and 2017, and the current rate of 25% is significantly lower than the Lower-Middle-Income country average female participation rate (38%). Additionally, a recent United Nations and Government of Tunisia (2017) report analyzing gender disparities in the Tunisian civil service finds that the percentage of women in the civil service has remained stable in recent years (standing at 37% of positions in 2016 compared to 36.6% in 2012), with generally lower female representation in management positions. While they are over-represented in the health and education sectors, female civil servants are especially under-represented relative to men in economic sectors, culture/entertainment, and LGs (where they represent 26%, 22% and 20.9% of staff respectively, compared to the national average of 37%). The report analyzes reasons for this under-representation, most of which are linked to insufficient access to career mobility opportunities¹⁵.

¹⁵ UN-Women and Government of Tunisia (2017), « Présence des femmes dans la fonction publique et accès aux postes de décision en Tunisie »

40. The AF introduces the following activities to address the gender gaps in women's economic activity under Sub-Program 3:

- DLI 4 (LG PA): The PA indicator regarding the implementation of a human resources adjustment plan by LGs requires that such plans include an analysis of the number of women in different positions. This will provide evidence to shape future LG staffing decisions and increase the likelihood they are gender-informed.
- DLI 9 (improving human resources management): The technical specifications for the online platform on job mobility will allow tracking historic records of mobility 'transactions' including by gender. Tracking these transactions by gender will help to generate better information on trends of women's employment and skill match within LGs, and improve future matching between supply and demand and capacity development decisions. The online platform will be made available to public servants in an open and non-discriminatory manner to ensure that women have equal information on and access to the opportunities listed, and will be actively advertised to all staff. An internal communication strategy funded by the operation will be developed and implemented, with particular considerations for encouraging applications by women (monitored in the result indicator cited below). This DLI also supports the adoption of a decree establishing conditions for staff redeployment that is expected to include language related to non-discrimination, as well as financial and non-financial incentives (such as opportunities for career promotions) for staff that take up positions in target LGs. Both the decree and the online platform are expected to facilitate career mobility for civil servants, including women, by better utilizing and deploying their skills in key management and technical positions.

41. These activities will be captured in the following results indicators, under results area (RA) 3:

- Number of applications through the new online job market for mobility (of which 35% filed by women) – this target is between the current percentage of women staff in LGs (20.9% in 2016) and the national average of women staff in the civil service (37% in 2016)
- Target municipalities have filled 4 out of 6 key managerial and technical posts – this indicator is not gender disaggregated but these posts will be filled through the online platform, which will be advertised and accessible to all staff, with particular measures to encourage applications by women

42. Finally, the Program will continue to provide specific benefits for women through its support for improved municipal services across LGs that are part of the Program, including in lagging areas. A large share of municipal investments is oriented towards the installation and replacement of public lighting and sidewalks, especially in disadvantaged neighborhoods. These types of investments constitute two basic services which have been repeatedly identified as priorities by women.

Maximizing Finance for Development

43. This operation addresses key upstream constraints that limit the potential for private sector investment and participation in local service delivery. According to a recent analysis carried out by the General Directorate of Local Governments and financed by the Islamic

Development Bank, the current level of private sector participation in municipal services in Tunisia is very low and consists of poor quality contracts. This is attributed to two main constraints: the financial capacity of LGs is very limited (which in turn limits the financial sustainability of local services), and LG capacity to manage private sector participation is very weak.

- 44. This operation tackles both factors directly.** Firstly, it increases the financial capacity of LGs in three major ways: (i) increasing the predictability of resource transfers from the central government to LGs (through Sub-Program 1, as reflected in DLI 2 - timely communication and transfers of unconditional CBGs), (ii) improving financial management, which contributes to improved local revenue generation and asset management (through incentives introduced through the PA administered through Sub-Program 1 and through Sub-Program 3, as reflected in DLI 8 - improving transparency and access to information), and (iii) exploring access to opportunities in the public procurement market for companies and particularly SMEs by providing to LGs technical assistance to encourage use of the online e-procurement system TUNEPS through a PAP action. These measures seek to strengthen municipal revenues, decreasing the payment risks for existing and future partnerships with private actors, and improve LG creditworthiness for potential future commercial borrowing. Secondly, they seek to increase the institutional capacity of LGs by improving the quality and transparency of their fiduciary, planning and investment processes, which are key competencies for managing private sector participation or financing. These competencies may become increasingly relevant during the lifetime of the Program: although the current institutional, legal and socio-political context is not very conducive to private sector participation or financing of local service delivery, this legal framework is currently being reformed to facilitate such partnerships, and Program LGs will be positioned to take advantage of this opportunity.

Climate Co-Benefits

- 45. Vulnerability context.** Recent research shows that disasters are on the rise in the MENA region: while the absolute number of disasters around the world has almost doubled since the 1980s, the average number of natural disasters in MENA has almost tripled over the same period¹⁶. The high concentration of population in cities (3% of the region's surface area is home to 92% of the total population), as well as the strong demographic pressure on urban areas in MENA (that are home to 62% of the total population while in absolute terms, the MENA urban population is expected to double by 2040) are increasing the exposure and vulnerability of people and economic assets to disasters. In Tunisia, a recent WB report forecasts an intensification of extreme rainfall events in the coming years due to climate change¹⁷. Over the past 50 years, the country has faced repeated and major floods, which have caused about 800 casualties and material losses estimated at TND hundreds of millions¹⁸. In addition to this, potential sea-level rise poses a risk to coastal communities where the

¹⁶ GFDRR, the World Bank, UNDP, UNISDR, [Natural Disasters in the Middle East and North Africa: A Regional Overview](#), 2014.

¹⁷ World Bank, 2013, *Tunisia in a Changing Climate: Assessment and Actions for Increased Resilience and Development*. World Bank, CMI, 2011, [Climate Change Adaptation and Natural Disasters Preparedness in the Coastal Cities of North Africa](#)

¹⁸ Noûmène Fehri, "L'aggravation du risque d'inondation en Tunisie: éléments de réflexion", *Physio-Géo*, vol 8, 2014.

population is already concentrated. From 2030 onwards, according to estimates, a 20-year return period rainfall would become a 10-year rainfall¹⁹. Given this vulnerability context, climate adaptation measures are necessary.

46. Program climate and disaster risk screening. The Additional Financing targets the population most likely to be affected by disaster risks, as it supports 272 municipalities housing most of the country's population and presenting the highest concentrations of urban population. Additionally, Sub-Program 2 focuses on disadvantaged neighborhoods, where climate-related risks are exacerbated due to inadequate drainage infrastructure, land-use issues, informal construction in flood-prone areas, and unsafe disposal of solid waste in drainage channels. Given the exposure to these hazards, the physical investments in municipal services facilitated by Sub-Programs 1 and 2 are likely to be most vulnerable to climate risks and need to be designed in a climate-resilient fashion. In terms of institutional readiness, the operation can help improve the adaptive capacity of LGs by sensitizing them so they are better equipped to incorporate risks linked to climate change vulnerability and natural disasters. Based on this assessment, the potential impact to the Program from climate and geophysical hazards is assessed as moderate.

47. Climate co-benefits. The Program is cognizant of climate change risks, and will introduce appropriate adaptation and mitigation measures across the eligible menu of infrastructure investments (as reflected in DLIs 5 and 7) and some key institutional strengthening interventions (as reflected in DLI 6) to build resilience and adaptive capacity to climate impacts, as follows:

- (i) *Encouraging climate-smart infrastructure:* although a large part of the investment required to address flooding risks (including river flood hazard and flooding risks linked to sea level rise) involve larger equipment that fall under the mandate of the Central Government, the investments made by LGs in local infrastructure have the potential to apply climate-resilient engineering. The environmental review process for Sub-Program 2 projects already includes climate adaptation considerations, and this aspect will be enhanced to ensure that key investment types under Sub-Program 2 take into account climate stressors such as higher temperatures, increased precipitation, or flooding. Adaptation co-benefits could arise from investments such as sustainable stormwater drainage infrastructure, urban regeneration through afforestation to limit run-off, and potentially through climate proofing of roads to enable reduced runoff and increased absorption. Additionally, mitigation co-benefits are expected to arise from climate-smart investments in street lighting (replacing lighting equipment with photovoltaic lighting and LED bulbs for streetlights leading to energy efficiency gains), and potentially from use of energy efficient building materials and equipment.
- (ii) *Building LG capacity to integrate climate and disaster risks into the municipal investment cycle:* As parallel TA, resources have been mobilized to support activities related to streamlining disaster risk management (DRM) in strategic urban planning and in municipal investment. The pilot activity is ongoing and has resulted in the development of a methodology for participatory risk mapping at the municipal

¹⁹ World Bank, 2013, *Tunisia in a Changing Climate: Assessment and Actions for Increased Resilience and Development*. World Bank, CMI, 2011, [Climate Change Adaptation and Natural Disasters Preparedness in the Coastal Cities of North Africa](#)

level. Focusing on flooding risks from sea level rise and changes in precipitation, this methodology has been tested in four pilot municipalities. Based on its results, this activity will inform a training module on municipal DRM (for municipal staff and local elected representatives) with the intention of integrating this in the national LG training institute (CFAD) course offerings and making it available to all LGs through Sub-Program 3.

48. The following DLIs will be linked to climate change adaptation activities:

- DLI 5 (Required percentage of LGs have executed their Annual Investment Plans on schedule in terms of expenditures): LGs' AIPs cover Sub-Program 2 investments, for which investment decisions linked to climate resilience are being enhanced (e.g. through development of model TORs and use of energy-efficient public lighting – see details below). This is in addition to the existing environmental review process for projects which already includes climate adaptation considerations.
- DLI 6 (LGs that received Capacity Building Support in accordance with their annual capacity development plan): based on the results of the ongoing pilot, capacity development options offered by the CFAD would include an optional training on integrating DRM in municipal investment and urban planning.
- DLI 7 (Targeted number of people living in targeted disadvantaged neighborhoods have benefited from improved municipal infrastructure): The environmental review process for Sub-Program 2 projects already includes climate adaptation considerations. This aspect will be enhanced through introduction of specific technical features in the TORs of pre-feasibility studies. To this end, model TORs will be developed (in collaboration between WB experts and the CPSCL) and included in the Operational Manual. Also under Sub-Program 2, the CPSCL will recommend to LGs that all public lighting solutions built (representing about 10% of investments) be equipped with LED bulbs and that photovoltaic public lighting be introduced when/if upgrading the main road of each neighborhood (road upgrades represent about 40% of investments).

Citizen Engagement

49. Establishing strong participatory processes for planning public investments, opportunities for citizen feedback, robust GRMs, and access to information will continue to be key elements of the PforR (both as performance incentives and DLIs). Performance incentives for municipalities will be adjusted to emphasize outcomes and outputs and to provide incentives for municipalities to close the feedback loop with citizens, including through: (i) a PA indicator incentivizing transparent disclosure of information on LG investment planning through both physical and online means; and (ii) a possible PA indicator incentivizing municipal councils to discuss proposals and feedback collected in preparatory meetings with citizens. A revised DLI 8 on proactive disclosure is also being introduced. Additionally, a new indicator on *functional* grievance redress at the municipal level is included in the results framework. Finally, a review of existing performance monitoring revealed the need for independent citizen feedback on service quality, local governance, and the overall perspective of the citizen vis-à-vis the municipality (level of trust, perception of social compact). Accordingly, because this is a new area, a pilot baseline system will be pursued in parallel with trust fund financing.

Grievance Redress

50. Communities and individuals who believe that they are adversely affected by a WB supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Program affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and 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.

ANNEXES

ANNEX 1: REVISED RESULTS FRAMEWORK AND MONITORING INDICATORS

The objectives of the Program are: (i) to strengthen Local Governments' performance to deliver municipal infrastructure, and (ii) to improve access to services in targeted disadvantaged neighborhoods.

Action (No Change, Revised, New, Marked for Deletion)	PDO Indicators by Objectives/ Outcomes (Key indicators to measure the achievement of each aspect of the PDO statement)		DLI #	Core (Y/N)	Unit of Meas.	Baseline (Year)	Actual (Year)	End Target (Year)	Rationale for Changes from Original
Revised	Objective 1: To strengthen Local Governments' performance to deliver municipal infrastructure	PDO Indicator 1: Percentage LGs that achieve at least the threshold score in their annual performance assessment	4	Y	%	0% (2014)	76% (2017)	70% (2022)	The exact threshold score has been removed as it is to be indicated in the manual, as is the case for the relevant DLI indicator: DLI 4. Intermediate targets have been adjusted since the PA will be revised to include more results-oriented indicators.

Revised	Objective 2: to improve access to services in targeted disadvantaged neighborhoods.	PDO Indicator 2: People living in targeted disadvantaged areas benefiting from improved municipal infrastructure (disaggregated by gender)	N/A	N	#	0 (2014)	22,510 (2017)	640,000 (2022)	Included scaled-up target for outer years (140,000 in addition to the 500,000 originally targeted).
Revised	Both objectives	PDO Indicator 3: Number of direct beneficiaries of which 50% women	N/A	Y	#	0 (2014)	7,000,000 (2018)	9,700,000 (2022)	The beneficiary population size increased due to the Government's communalization reform. The size grew since 2017 however Program LGs have informally excluded the new populations from Program investments since funds had not yet been calibrated.

Action (No Change, Revised, New, Marked for Deletion)	Intermediate Results Indicators by Results Area (critical processes, outputs or intermediate outcomes indicators needed to achieve each aspect of the PDO)		DLI #	Core	Unit of Meas.	Baseline (Year)	Actual (Year)	End Target (Year)	Rationale for Changes from Original
No change	Results Area 1 (Capital Grant System reformed)	Timely publication of indicative unconditional capital grant allocation for each LG	2	No	Yes/No	No (2014)	Yes (2018)	Yes (2022)	No change
		LGs that satisfy Minimum Mandatory Conditions (MMCs) and receive capital grants	3	No	%	0 (2014)	97 (2018)	90% (2022)	No change

Revised	Results Area 2 (LG institutional performance improved to deliver municipal infrastructures and services)	Independent LG performance assessment system introduced and threshold targets met	4	No	Yes/No	No (2014)	Yes (2017)	Yes (2022)	The PA will be made more results-oriented.
Revised		LGs that have executed their Annual Investment Plans on schedule in terms of expenditures	5	No	%	NA (2014)	36 (2016)	80 (2022)	Yearly targets and the execution rate adjusted according to the recommendation of the midterm review to better calibrate targets based on the baseline value developed in the first year of Program implementation; but the end target of 80% will be maintained.
Revised		LGs that received Capacity Building Support in accordance with their Annual Capacity Development Plan (ACDP)	6	No	%	0 (2014)	55 (2016)	80 (2022)	The two activities (TA and training) of the Capacity Building Support to LGs will be measured separately. Having received Capacity Building Support means that LGs have received at least 70% of training requests validated by the CFAD and a minimum percentage of TA requests validated by the CPSCL (as defined in the POM) and recorded in their final validated ACDPs. The parent Program had defined during implementation the 70% metric of having ‘substantially executed’ the ACDP regardless of the type of activities undertaken but in this revised definition the achievement target must be met both by training and TA separately. The intent is to encourage higher execution of TA.

No change		Information on budgetary transfer and LG performance is publicly accessible	8	No	Yes/No	No (2014)	Yes (2016)	Yes (2022)	No change; this indicator will be verified as part of DLI 8 under the AF.
New		% LGs with functional Grievance Redress Systems	N/A	No	%	0 ²⁰ (2018)		60 (2022)	Functional ²¹ grievance redress is critical both for overall Program risk management (including social and environmental risks), to strengthen accountability and to mitigate some of the risks of decentralization. While LGs have had a GRM, the requirement characterizing functionality of GRM systems is new.
New		Target municipalities have filled 4 out of 6 key managerial and technical posts	9	No	%	0 (2018)		80 (2022)	New indicator introduced to capture LG strengthened HR capacity.
New		Number of staff that have applied for LG positions through the online job market (of which 35% filed by women)	9	No	Number of applications	0 (2018)		200 (2022)	New indicator to facilitate mobility of staff to LGs.
Marked for Deletion	Results Area 3 (Access to municipal infrastructure in targeted disadvantaged areas improved)	LGs that implement their investment plans for targeted disadvantaged neighborhoods according to schedule	N/A	No	%	0		N/A	The Annual Investment Plan includes all LG investments including Sub-Program 1 and 2 funded projects. Therefore, this indicator represents a repeat of the Annual Investment Plan execution indicator above.
Marked for Deletion		Access to all-season roads within a 500-meter range under the Program	N/A	Yes	Number	0		N/A	Not a good measure in the Tunisian urban context, where

²⁰ The baseline is 0 because this is a new indicator focused on GRM functionality. Currently LGs do not have fully functional GRM systems.

²¹ This is included to encourage the LGs to move towards a more effective GRM for citizens. A functional system would be: (a) able to quickly produce data on grievance and complaints by type (for example, solid waste, ID, land dispute, social or environmental issue etc.), by level of resolution, and by resolution and response rate for LG dependent complaints; (b) accessible to all citizens (physical registry or online) and keeping a register/records that is comprehensive; and (c) governed by a protocol laying out clear procedures and typology, at a minimum with public signage on citizens' rights to submit complaints and process for appeal.

									under-equipped neighborhoods are generally already connected to an asphalted road but where the road system within these neighborhoods remains very poor. The indicator will be replaced with the Corporate Results Indicator on non-rural roads..
Marked for Deletion		People in urban areas provided with access to regular solid waste collection under the program	N/A	Yes	Number	0		N/A	The original indicator focused on an investment component not pursued under Sub-Program 2 (solid waste management) given the need for municipalities to program this type of investment at the level of the whole municipality and not at the level of a single neighborhood.
New		Number of kilometers of roads constructed and/or rehabilitated under Sub-Program 2	N/A	No	Km of roads	None (2014)	64 (2018)	600 linear km (2022)	The Corporate Result Indicator on non-rural roads is better suited than the previously used corporate indicator pertaining to all-season roads. Target established based on projections from finalized projects under the Program to date.
New		Number of lighting solutions installed under Sub-Program 2.	N/A	No	Number of lighting solutions	None (2014)	526 (2018)	5,500 lighting solutions (2022)	Better suited given the type of investments carried out in disadvantaged neighborhoods. Target established based on projections from finalized projects under the Program to date.

Monitoring & Evaluation Plan: PDO Indicators*

Indicator Name (#)	Description (Clear definition etc.)	Frequency	Data Source	Methodology for data collection	Responsibility for Data Collection	Rationale for Change
Percentage LGs that achieve at least the threshold score in their annual performance assessment	LGs have to meet a minimum score.	Annual	PA	This data is collected through the PA carried out by the CGSP.	CPSCL, CGSP	No change in the data collection method.
People living in targeted disadvantaged areas benefiting from improved municipal infrastructure (disaggregated by gender)	Program CY 2022 end target: 640,000	Annual	LG Progress Reports PPR	This data is available through the Sub-Program 2 M&E framework.	LG, CPSCL	No change in the data collection method.
Number of Direct Beneficiaries of which 50% women	Beneficiaries include both projects undertaken under Sub-Program 1 and Sub-Program 2. Program CY 2022 end target: 9,700,000	Annual	LG Progress Reports PPR	This data is reported on by LGs and by the CPSCL in the annual PPR.	LG, CPSCL	No change in the data collection method.

Monitoring & Evaluation Plan: Intermediate Results Indicators*

Indicator Name (#)	Description (Clear definition etc.)	Frequency	Data Source	Methodology for data collection	Responsibility for Data Collection	Rationale for Change
Timely publication of indicative unconditional capital grant allocation for each LG	The publication of the indicative allocation should be published on the LG portal	Annual	See Annex 2	See Annex 2	See Annex 2	No change

LGs that satisfy Minimum Mandatory Conditions (MMCs) and receive capital grants	Annual targets are defined in terms of percentage of LGs meeting the MMCs. Targets are set at 90% from 2018 onwards in the results framework.	Annual	See Annex 2	See Annex 2	See Annex 2	No change
Independent LG performance assessment system introduced and threshold targets met.	In CY 2019: 70% of LGs achieve threshold PA scores of 70 points In CY 2020: 60% of LGs achieve threshold PA scores of 50 points following the PA enhancement In CY 2021: 70% of LGs achieve threshold PA scores of 50 points following the PA enhancement	Annual	See Annex 2	See Annex 2	See Annex 2	The LG Performance Assessment will be revised to have fewer, more difficult indicators focused on measuring desired results. In light of the greater results sought, annual targets have been revised accordingly.
LGs that have executed their Annual Investment Plans on schedule in terms of expenditures	Percentage of LGs which have executed at least 50% of the expenditures involved in their annual investment plan	Annual	See Annex 2	See Annex 2	See Annex 2	Percent execution and yearly targets, with the exception of the end target, have been adjusted to reflect LG capacities assessed based on the baseline in 2016 and the recommendation from the Program midterm review.
LGs that received Capacity Building Support in accordance with their annual capacity development plan	Annual targets are defined in terms of percentage of LGs which have prepared and executed 70% of the training activities and a percentage target of their TA demands included in their Annual Capacity Development Plan and validated by CPSCL and CFAD.	Annual	See Annex 2	See Annex 2	See Annex 2	The verification protocol of the indicator has been revised to reflect disaggregated targets.

Information on budgetary transfer and LG performance is publicly accessible	The amount of the unconditional and conditional grants per LG, LG population, MMC results, PA scores, audits and procurement plans should be published on the E-Portal (machine readable data). Detailed budget data (expenditure, revenue, debt) should be published on the LG website.	Annual / Bi-Annual	See Annex 2	See Annex 2	See Annex 2	This indicator will be verified through DLI 8
LGs with functional Grievance Redress Systems	A functional system would be one: (a) able to quickly produce data on grievance and complaints by type (for example, solid waste, ID, land dispute, social or environmental issue etc.), by level of resolution, and by resolution and response rate for LG dependent complaints; (b) accessible to all citizens (physical registry or online) and keeps a register/records that is comprehensive; and (c) governed by a Protocol laying out clear procedures and typology, at a minimum with public signage on citizens' rights to submit complaints and process for appeal.	Annual	See Annex 2	See Annex 2 This will also be reflected in an indicator on GRM in the revised PA.	See Annex 2 (and CGSP audits)	This is a new indicator that will be verified in part through the CGSP audits of the revised PA. Data production will be verified through DLI 8a.
Target municipalities have filled 4 out of 6 key managerial and technical posts	Annual targets are defined as % of target municipalities which have staffed 4 out of 6 functions. In CY 2020, the target is for 50% of target municipalities to have staffed 4 out of 6 functions. In CY 2021, the target is for 70% of target municipalities to have staffed 4 out of 6 functions. In CY 2022, the target is for 80% of select municipalities to have staffed 4 out of 6 functions. A government decree on redeployment of	Annual	See Annex 2	See Annex 2	See Annex 2	This is a new indicator that will be verified through the newly introduced DLI 9a.

	staff towards LGs, to be adopted in 2019, is expected to define selection parameters for redeployment incentives.					
Number of staff that have applied for LG positions through the online job market (of which % filed by women)	The indicator measures the operationalization of the online job market which will aim to link job seekers with vacant positions in LGs. In CY 2021, the target is set to 100 staff have applied for LG positions through the online job market. In CY 2022, the target is set to 200 staff have applied for LG positions through the online job market.	Annual	See Annex 2	See Annex 2	See Annex 2	This is a new indicator that will be verified through the newly introduced DLI 9b.
Number of kilometers of roads constructed and/or rehabilitated under Sub-Program 2	The indicator measures the number of kilometers of all roads constructed, reopened to motorized traffic, or upgraded under Sub-Program 2. Targets are defined in light of the targets set by the preliminary studies for projects under the 2015-2016, 2017 and 2018 tranches, as well as in light of the achievements registered in the 21 projects completed to date.	Updated periodically upon completion of works for each project	CPSCS consolidates the data sent by LGs and ARRU (project completion reports)		Sub-Program 2 Technical committee	While this is a new indicator that will help to better measure the results on the ground for Sub-Program 2 funded projects, it will follow the relevant M&E process already undertaken under the Program.
Number of lighting points installed under Sub-Program 2.	The indicator measures the number of lighting points installed in the target neighborhoods under Sub-Program 2. Targets are defined in light of the targets set by the preliminary studies for projects under the 2015-2016, 2017 and 2018 tranches, as well as in light of the achievements registered in the 21 projects finalized so far.	Updated periodically upon completion of works for each project	CPSCS consolidates the data sent by LGs and ARRU (project completion reports)		Sub-Program 2 Technical committee	While this is a new indicator that will help to better measure the results on the ground for Sub-Program 2 funded projects, it will follow the relevant M&E process already undertaken under the Program.

ANNEX 2: DISBURSEMENT LINKED INDICATORS, DISBURSEMENT ARRANGEMENTS AND VERIFICATION PROTOCOLS

Disbursement-Linked Indicator Matrix 22

DLI (original/ no change, revised, new, marked for deletion)	Total Financing Allocated to DLI (in million USD)	Original DLRs (in million USD)						AF for DLRs				Rationale
		Original DLI Baselin e	Year or Period 1	Year or Period 2	Year or Period 3	Year or Period 4	Year or Period 5	AF DLI Baseli ne (if differe nt than last origina l DLR)	Year or Period 6	Year or Period 7	Year or Period 8	
DLI 1 (achieved) The Governmen t has replaced Decree No 97-1135 and restructure d its capital grant system accordingly		None	Yes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	No extension or revision needed as this DLI was already met in full.
Amount allocated	(original 30M)		30M									

²² The original loan is in Euro. However, by way of simplification, all the allocations of the parent Program included in this table are converted from Euro using the exchange rate included in the PAD of the parent Program (EUR 1= USD 0.72).

Status of Achievement/ Disbursement	Fully Disbursed		Fully disbursed									
DLI 2 (revised) Timely communication to LGs of the indicative Capital Block Grants (CBGs) allocation and timely transfer of CBGs to eligible LGs by the Government		None	Timely communication to LGs of the indicative CBGs allocation and timely transfer of CBGs to eligible LGs, in FY15	Timely communication to LGs of the indicative CBGs allocation and timely transfer of CBGs to eligible LGs, in FY16	Timely communication to LGs of the indicative CBGs allocation and timely transfer of CBGs to eligible LGs, in FY17	Timely communication to LGs of the indicative CBGs allocation and timely transfer of CBGs to eligible LGs, in FY18	Timely communication to LGs of the indicative CBGs allocation and timely transfer of CBGs to eligible LGs, in FY19		Timely communication to LGs of the indicative CBGs allocation and timely transfer of CBGs to eligible LGs, in FY20	Timely communication to LGs of the indicative CBGs allocation and timely transfer of CBGs to eligible LGs, in FY21	Timely communication to LGs of the indicative CBGs allocation and timely transfer of CBGs to eligible LGs, in FY22	No change has been introduced to the result sought, but new targets in the form of DLRs have been included for the extended period of the Program and the amount assigned to upcoming
Amount allocated	26M (original 20M)		4M ²³	4M	4M	4M	4M		2M	2M	2M	

²³ Amounts not disbursed due to effectiveness delays were reallocated equally to the DLRs of the subsequent years.

Status of Achievement/Disbursement	Disbursed: 10M		Not achieved because of effectiveness delays	Fully achieved and disbursed: 5M	Fully achieved and disbursed: 5M	In the process of being verified (5M)	Not yet due (5M)					DLRs has been reduced given strong performance on this DLI.
DLI 3 (revised) Acceptable percentage of LGs have met the MMCs and received CBGs		0	CY 2015: 60% of LGs	CY 2016: 70% of LGs	CY 2017: 80% of LGs	CY 2018: 90% of LGs	CY 2019: 90% of LGs		CY 2020: 90% of LGs	CY 2021: 90% of LGs	NA	No change has been introduced to the result sought, but new targets in the form of DLRs have been included for the extended period of the Program and the amount assigned to upcoming DLRs has been reduced given strong performance
Amount allocated	36M (original 30M)		6M ²⁴	6M	6M	6M	6M		3M	3M		
Status of Achievement/Disbursement	Disbursed: 15M		Not achieved because of effectiveness delays	Fully achieved and disbursed: 7.5M	Fully achieved and disbursed: 7.5M	In the process of being verified (7.5M)	Not yet due (7.5M)					

²⁴ Amounts not disbursed due to effectiveness delays were reallocated equally to the DLRs of the subsequent years.

												ce on this DLI.
DLI 4 (scaled up) The Government has designed and implemented an independent LG performance assessment (PA) system and required percentage of LGs have met the threshold PA scores		None	In CY 2015: The PA system is developed and the PA manual is adopted by MoI	In CY 2016: the PA system is tested and implemented.	In CY2017 50% of LGs achieve threshold PA scores	(a) In CY 2018: 60% of LGs achieve threshold PA scores (13M) & (b) Ministerial arrêté (Government order) pertaining to PA revision has been published before December 31, 2018 (7M)	In CY 2019: 70% of LGs achieve threshold PA scores		In CY 2020: 60% of LGs achieve threshold PA scores based on the revised assessment	In CY 2021: 70% of LGs achieve threshold PA scores based on the revised assessment	NA	The PA indicators and scoring system will be revised to incentivize the achievement of greater results. The new system will be effective in year 6, and because it will be more difficult for LGs to achieve the threshold PA score, the target is lower in year 6 than in the preceding year. Parallel simulation
Amount allocated	112M (original 90M)		20M	20M	25M	20M	5M		11M	11M		
Status of Achievement/	Disbursed: 65M		Fully achieved and	Fully achieved and	Fully achieved and	Not yet due (25M)						

Disbursement			disbursed: 20M	disbursed: 20M	disbursed: 25M								s of the new system will be carried out in 2019 on a sample of LGs to introduce necessary adjustments to the scoring methodology, including in order to ensure that the minimum threshold score is well calibrated to represent satisfactory LG performance. The values assigned to DLR 4.4.b and DLR 4.5 are reassigned
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												from DLR 4.4.a financed by the parent loan. All other DLR additions to the Program are financed by the new loan.
DLI 5 (revised) Required percentage of LGs have executed their Annual Investment Plans on schedule in terms of expenditures		None	CY 2015: 40 % of LGs	CY 2016: 50 % of LGs	CY 2017: 60 % of LGs	CY 2018: 60 % of LGs (original: 70%)	CY 2019: 60 % of LGs (original: 80%)		CY 2020: 70 % of LGs	CY 2021: 70 % of LGs	CY 2022: 80% of LGs	Included targets for the extended period of the Program and revised targets for 2018 and 2019 and revised the verification protocol. Please see table below for further details.
Amount allocated	76.5M (original 45M)		5M ²⁵	10M	10M	10M	10M		10.5M	10.5M	10.5M	
Status of Achievement	Disbursed: 8M		Not achieved	Partially achieved	Expected to disburse	Not yet due	Not yet due					

²⁵ Amounts not disbursed due to effectiveness delays were reallocated equally to the DLRs of the subsequent years.

nt/ Disbursement			because of effectiveness delays	and disbursed: 8M	soon (12.4M)	(12.3M)	(12.3M)					
DLI 6 (revised) LGs that received Capacity Building Support in accordance with their annual capacity development plan		None	CY 2015: 50% of LGs	CY 2016: 60% of LGs	CY 2017: 70% of LGs	CY 2018: 70% of LGs (original 80%)	CY 2019: 70% of LGs		CY 2020: 70% of LGs	CY 2021: 80% of LGs	NA	Included new targets for the extended period of the Program and revised the verification protocol. Please see table below for further details.
Amount allocated	40M (original 25M)		5M ²⁶	5M	10M	5M	5M		5M	5M		
Status of Achievement/ Disbursement	Disbursed: 6.1M		Not achieved because of effectiveness delays	Partially achieved and disbursed: 6.1M	Expected to disburse soon (9.45M)	Not yet due (9.45M)						
DLI 7 (scaled up) Targeted number of people living in targeted disadvantaged		0				Eligible LGs have been selected pursuant to selection criteria	Work contracts covering 500,000 people have been tendered and		Tenders for works launched covering 70% of the additional target	Tenders for works launched covering 100% of the additional target	Works Contracts covering 100% of targeted additional	Included scaled-up target for outer years (140,000 additional population for an end

²⁶ Amounts not disbursed due to effectiveness delays were reallocated equally to the DLRs of the subsequent years.

neighborhoods have benefited from improved municipal infrastructure						and transparent and objective procedures as defined in the POM ²⁷	completed by FY19 ²⁸ Tenders for works launched covering 50% of the additional target population (for AF) ²⁹		population Works Contracts covering 20% of targeted additional population are completed ³⁰	population Works Contracts covering 70% of targeted additional population are completed	total population are completed	target of 640,000)
Amount allocated	60 M (original 40M)	40M				9M	3M		2.2M	4.3M	1.5M	
Status of Achievement/ Disbursement	Disbursed in advance: 40M	Disbursed: 40M										

²⁷ This result corresponds with DLR 7.1 as outlined in the second table in this annex

²⁸ This result corresponds with DLR 7.2 as outlined in the second table in this annex.

²⁹ This result and the subsequent results linked to tenders for works launched in the subsequent years correspond with DLR 7.3 as outlined in the second table in this annex.

³⁰ This result and the subsequent results linked to works contracted completed in the subsequent years correspond with DLR 7.4 as outlined in the second table in this annex.

DLI 8.a. (revised): Transparency and access to information have been improved	\$36.5 M (original \$20M)		In CY 2015, the E-portal is designed and operational.				Publication on E-Portal of key information and data on LGs in machine readable formats, including with metadata (datasets and information to be published are defined in the DLI verification protocol table below). (Key data is not published or not updated regularly)		Publication and update on E-Portal of new and existing key information and data on LGs in machine readable formats, including with metadata	Publication and update on E-Portal of new and existing key information and data on LGs in machine readable formats, including with metadata	Publication and update on E-Portal of new and existing key information and data on LGs in machine readable formats, including with metadata	Strengthened mechanisms for proactive disclosure and open data are proposed, which will include information related to LG management and performance, to strengthen accountability and opportunities for citizen engagement.
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DLI 8.b. (new): local government financial management and financial reporting have been improved				CY 2016: At least 60% of LG annual financial accounts legally received by the Cour des Comptes are audited by December 31 of current year	CY 2017: At least 70% of LG annual financial accounts legally received by the Cour des Comptes are audited by December 31 of current year	CY 2018: At least 80% of LG annual financial accounts legally received by the Cour des Comptes are audited by December 31 of current year (audit rate for LG reports received)	CY 2019: 100% of LG annual financial accounts legally received by the Cour des Comptes are audited by December 31 of current year	CoA to undertake risk-based audits and follow-up with LGs (LG annual financial statement received by the Cour des Comptes are audited according to the methodology outlined in the POM) by December	CoA to undertake risk-based audits and follow-up with LGs (at least 90% of LG annual financial statement received by the Cour des Comptes are audited according to the methodology outlined in the POM) by December 31 of current year	CoA to undertake risk-based audits and follow-up with LGs (100% of LG annual financial statement received by the Cour des Comptes are audited according to the methodology outlined in the POM) by December 31 of current year	CoA to undertake risk-based audits and follow-up with LGs (100% of LG annual financial statement received by the Cour des Comptes are audited according to the methodology outlined in the POM)	The proposed changes to this DLI are as follows: to include an amendment that audits will use a new (enhanced) audit format in 2020, 2021, and 2022. ³¹ The DLI continues the existing requirement that audits of LGs be undertaken, but has, in recognition of the need to improve audit quality over quantity,
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³¹ Given the new changes that are foreseen under the new LG Organic Law, the period from 2019 to 2021 is considered a transitional period, whereby it is anticipated, following the adoption of related implementation decrees, that the audit function would be outsourced to the private sector under the supervision of the CoA.

								ber 31 of current year			by Decem ber 31 of current year	reduced the requiremen t in terms of the number of LGs to be audited each year, with the objective of all LGs having been audited by 2019.
Amount allocated	36.5M (original 20M)		10M	3M	3M	4M	3M (8a) 2.5M (8b)		3M (8a) 2.5M (8b)	2M (8a) 1M (8b)	1.5M (8a) 1M (8b)	
Status of Achieveme nt/ Disbursem ent	Disbursed: 13M		Fully achieved and disbursed: 10 M	Fully achieved and disbursed (3M)	In the process of being disbursed (3M)	Not yet due (4M)						
DLI 9.a (new) Improved Human resource manageme nt – Staffing measures							Adoption of a governme nt decree with objective of establishi ng financial and non-		50% target of municipal ities have filled 4 out of 6 key manageri al and technical functions	70% target of priority municipa lities have filled 4 out of 6 key manageri al and	80% target of priority municipi palities have filled 4 out of 6 key manage	A new DLI is proposed on HRM to incentivize adoption of key reforms and policies by the central governmen

							financial incentives to facilitate redeployment of staff to targeted LGs (None)		(0%)	technical functions	rial and technical functions	t to facilitate effective civil service management at the local level. The DLI outlines key legal and institutional measures that the ministry and central government would take to respond to staffing needs in municipalities. The DLI would also ensure a results-oriented approach by measuring the percentage of municipalit
DLI 9.b (new) Improved Human resource management – HRM tools							Preparation of strategic job descriptions for 6 key functions (key management and technical positions) (No job descriptions)		Implementation of an online job market to inform potential applicant of vacant positions in LGs (No online job market)	100 staff have applied for LG position through the online job market	200 staff have applied for LG position through the online job market	

												ies that have staffed key managerial and technical functions.
Amount allocated	13 M						2M (9a) 3M (9b)		3M (9a) 1M (9b)	1.5M (9a) 1M (9b)	1M (9a) 0.5M (9b)	
Status of Achieveme nt/ Disbursem ent	New											
Total Financing Allocated:	300M (original) + 130M (new)	40 M	80 M	48 M	58 M	58 M	43.5 M		43.2 M	41.3 M	18 M	

DLI Verification Protocol Table

#	DLI	Definition/ Description of achievement	Scalability of Disburse ments (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification			Rationale for any Changes
				Data source/a gency	Verific -ation Entity	Procedure	
1	DLI 1 The Government has replaced Decree No 97-1135 and restructured its capital grant system accordingly	Fully achieved and no further legal texts are required.	N/A	N/A	N/A	N/A	N/A
2	DLI 2 Timely communication to LGs of the indicative Capital Block Grants (CBGs) allocation and timely transfer of CBGs to eligible LGs by the Government	From Program year 2 onwards, annual allocation of CBGs published no later than December 1 of the preceding year and disbursed no later than February 1 of the current year	No	CPSCL	IVA	<p>From Program year 2, the CPSCL will notify the Bank of the date and means of publication of the annual allocation and will submit the documentation relative to the disbursements.</p> <p>Verification by the IVA that the annual allocation is consistent with the provisions of the decree, that the indicative annual allocation of capital block grants has been communicated in a timely manner to LGs to use the information for the preparation of their annual investment plan, and that the disbursements have been completed by the target date to eligible LGs.</p>	No changes in DLI formulation and verification. This DLI now includes targets for the outer years of the Program.

3	DLI 3 Acceptable percentage of LGs have met the MMCs and received CBGs	Annual targets are defined in terms of percentage of LGs meeting the MMCs. The Annual targets are: CY 2015: 60% of LGs CY 2016: 70% of LGs CY 2017: 80 % of LGs CY 2018: 90% of LGs CY 2019: 90% of LGs CY 2020: 90% of LGs CY 2021: 90% of LGs	Yes	LGs and CPSCL	IVA	Each year, the LGs will communicate to the CPSCL the documentation relative to the satisfaction of MMCs. The assessment report and supporting documentation will be made available by the CPSCL for the IVA to carry out a sample audit.	No changes in DLI formulation. This DLI will include targets for the extended period of the Program.
4	DLI 4 The Government has designed and implemented an independent LG performance assessment (PA) system and required percentage of LGs have met the threshold PA scores	In CY 2015: The PA system is developed and the PA manual is adopted by Government In CY 2016: the PA system is tested and implemented. In CY2017 50% of LGs achieve threshold PA scores of 70 points In CY 2018: 60% of LGs achieve threshold PA scores of 70 points (13M) & Ministerial <i>arrêté</i> (Government order) pertaining to PA revision has been published before Dec 31, 2018 (7M) In CY 2019: 70% of LGs achieve threshold PA scores of 70 points In CY 2020: 60% of LGs achieve threshold PA scores of 50 points In CY 2021: 70% of LGs achieve threshold PA scores of 50 points	Yes	CPSCL / CGSP	CGSP	The entity in charge of PA (CGSP) will provide to the WB through the CPSCL the supporting documentation relative to the achievement of targets for CY 2015, and 2016, the PA results, and the PA yearly report for CY 2017, 2018, 2019, 2020, and 2021.	No changes in DLI formulation are envisaged. This DLI now includes targets for 2019 - 2021. In 2018, a ministerial <i>arrêté</i> (Government order) will be adopted to make the PA more results-oriented.

5	DLI 5 Required percentage of LGs have executed their Annual Investment Plans on schedule in terms of expenditures	Percentage of LGs which have executed a minimum percentage of the expenditures involved in their annual investment plan. The annual targets are CY 2015: 40 % of LGs have executed 70% of expenditures CY 2016: 50 % of LGs have executed 70% of expenditures CY 2017: 60 % of LGs have executed 70% of expenditures CY 2018: 60 % of LGs have executed 50% of expenditures CY 2019: 60 % of LGs have executed 50% of expenditures CY 2020: 70% of LGs have executed 50% of expenditures CY 2021: 70% of LGs have executed 50% of expenditures CY 2022: 80% of LGs have executed 50% of expenditures	Yes	CPSCSCL / CGSP	IVA	Each year, the LGs will prepare a progress report on the execution of their investment budget. The CPSCSCL will compile the progress reports in a consolidated progress report for the same year. The IVA will verify the achievement of the target through sample audits.	Due to the assessment during the midterm review that the original target was overestimated relative to the baseline and the broad scope of the investment plan (not just the portion financed by the WB), the end target has been maintained but the intermediate targets upcoming have been revised down slightly, and the percentage of expenditures has been slightly reduced for upcoming years.
6	DLI 6 LGs that received Capacity Building Support in accordance with their annual capacity development plan	Annual targets are defined in terms of percentage of LGs which have prepared and substantially executed a Capacity Development Plan. Substantially executed is defined as having received 70% of training requests validated by the CFAD and a minimum percentage of TA requests validated by CPSCSCL defined in the Operation Manual. The Annual targets are:	Yes	LG / CPSCSCL / CFAD	IVA	Starting from CY 2015, each LG prepares and executes with the support of the CPSCSCL and CFAD an Annual Capacity Development Plan (ACDP) covering the same areas covered under the PA. CFAD consolidates data on the ACDP training and transmits this information to CPSCSCL. Each LG transmits its final ACDP for year n and the progress report on the execution of its ACDP for year n-1 to the CPSCSCL by February 28th of year n. CPSCSCL submits to the IVA a progress report consolidating ACDPs for the previous year (n-1) by	To the description of achievement section has been added a more specific definition of 'substantially executed' of their ACDP, which is defined as LGs having received 70% of training requests validated by the CFAD and a minimum percentage of TA requests validated by

		CY 2015 : 50% of LGs CY 2016 : 60% of LGs CY 2017 : 70 % of LGs CY 2018 : 70% of LGs CY 2019 : 70% of LGs CY 2020 : 70% of LGs CY 2021: 80% of LGs				the end of April of each year. The IVA verifies achievement of the target.	CPSCL defined in the Operation Manual and recorded in their final ACDPs.
7	DLI 7 (scaled-up) Targeted number of people living in targeted disadvantaged neighborhoods have benefited from improved municipal infrastructure	DLR 7.1 (new) Eligible LGs have been selected pursuant to selection criteria and transparent and objective procedures as defined in the POM All the neighborhoods eligible to additional financing under Sub-Program 2 have been selected and the LGs in which these neighborhoods are located have been notified	No	CAP	IVA	The identification of eligible neighborhoods/LGs will be conducted by the Commission d'Annualisation du Programme (CAP) (and confirmed by the Comité interministériel, CIM), based on preparatory work by the Technical Committee, through a call for expression of interest. The selection will be conducted based on transparent and objective criteria (including socio-economic criteria – local development index, density etc.), to be developed by the Technical Committee in collaboration with the Bank and validated by the CAP as soon as possible, following which they will be included in the POM.	Introduction of a new selection methodology to further enhance decentralization and put LGs in the driver seat regarding the planning and implementation of investments falling within their mandates.
		DLR 7.2 Work contracts covering 500,000 people have been tendered and completed by the end of FY19. This is defined as the percentage of the initial target population (from the Parent Program) for which works contracts have been signed and completed. Work contracts are	Yes	CPSCL	IVA	Each year, LGs will prepare a physical progress report on investments funded as part of the Program. In addition, the LGs will make available to the CPSCL all documentation relative to each subproject's compliance with the Program's provision on (i) sub-project's eligibility, (ii) feasibility studies, (iii) procurement, and (iv) environmental and social management. The CPSCL will review the documentation and determine the compliance of each municipal investment.	No changes.

		defined as contracts concluded by Program closure.				The CPSCL will submit to the Bank a consolidated report on progress and compliance of the investment sub-projects in targeted neighborhoods. The assessment report and supporting documentation will be made available by the CPSCL for the IVA to carry out a sample audit.	
		<p>DLR 7.3 (new) works contracts covering additional 140,000 people have been tendered by FY21 (disbursement on the basis of a formula)</p> <p>This is defined as the percentage of the additional target population (140,000 people targeted by the Additional Financing) for which tenders for works have been launched.</p> <p>Tenders launched are defined as works contracts for which the bidding documents have been published by the AF closing date.</p>	Yes	CPSCL	IVA	<p>Each year, the LGs will prepare a physical progress report on investments funded as part of the Program. In addition, the LGs will make available to the CPSCL all documentation relative to each subproject's compliance with the Program's provision on (i) sub-project's eligibility, (ii) feasibility studies, (iii) procurement, and (iv) environmental and social management.</p> <p>The CPSCL will review the documentation and determine the compliance of each municipal investment.</p> <p>The CPSCL will submit to the Bank a consolidated report on progress and compliance of the investment sub-projects in targeted neighborhoods. The assessment report and supporting documentation will be made available by the CPSCL for the IVA to carry out a sample audit.</p>	The target population is scaled up and the modality has been revised as detailed in the main body of the Program Paper and Annex 4.
		<p>DLR 7.4 (new) works contracts covering additional 140,000 tendered under DLR7.d have been completed by FY23</p> <p>This is defined as the percentage of the additional target population (for the Additional Financing) for which works contracts have</p>	Yes	CPSCL	IVA	<p>Each year, the LGs will prepare a physical progress report on investments funded as part of the Program. In addition, the LGs will make available to the CPSCL all documentation relative to each subproject's compliance with the Program's provision on (i) sub-project's eligibility, (ii) feasibility studies, (iii) procurement, and (iv) environmental and social management.</p>	The target population is scaled up and the modality has been revised as detailed in the main body of the Program Paper and the Technical Assessment Addendum.

		<p>been signed and completed by Program closure. Work contracts are defined as contracts concluded by Program closure.</p>				<p>The CPSCL will review the documentation and determine the compliance of each municipal investment. The CPSCL will submit to the Bank a consolidated report on progress and compliance of the investment sub-projects in targeted neighborhoods. The assessment report and supporting documentation will be made available by the CPSCL for the IVA to carry out a sample audit.</p>	
8	<p>DLI 8.a (revised) Transparency and access to information improved</p>	<p>Regular publication on E-Portal of key LG information and data in accessible and machine-readable formats, including with metadata as specified in the POM. Publication and update of data should be maintained after first year of publication:</p> <p>CY2019:</p> <ul style="list-style-type: none"> • Name of LG in Arabic and French; • Link to the LG website if it exists otherwise mentioning that it does not exist; • Number of inhabitants per year; • Surface area in square kilometers; • Indicators on the themes and the number of training and technical assistance provided to LGs (optional information: age distribution / gender / grade); 	Yes	<p>MALE, CPSCL</p> <p>E-portal</p>	IVA	<p>The IVA will verify the achievement of the corresponding targets.</p> <p>The MALE will provide links to the appropriate location of up to date machine readable data on the E-portal to CPSCL for verification by IVA; agreements will need to be reached on the specific data to be posted and the deadline for posting in the POM.</p>	<p>Change in targets described in previous table. The verification protocol will be modified to provide a definition of the “financial accounts are legally received” and to capture the new transparency requirements under this DLI.</p>

		<ul style="list-style-type: none"> • The block grant amount awarded to each LG; • MMC results; • Performance evaluation results by criteria; • Link to the report of the audit of the CoA; • The list of projects under the annual investment plan by year and their implementation progress updated every six months; • Automatic publication of data from the budget execution system (ADEB) to the portal every six months; • Total number of civil servants, by grade, by gender, by age group; <p>CY2020:</p> <ul style="list-style-type: none"> • A link to the website of the procurement plan of the LG or a machine-readable file published on the portal; • Number of filled and vacant positions in each LG <p>CY2021:</p> <ul style="list-style-type: none"> • Number of total complaints by typology, response time, resolution time; • Tax revenue data (planned, collected, and rest); <p>CY 2022:</p>					
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		<ul style="list-style-type: none"> Update of previously published data should be maintained 					
	DLI 8.b. (scaled up): Local government financial management and financial reporting have been improved	The target of 100% of LGs being audited applies to those LGs that have submitted their accounts and supporting documentation to the CoA by the deadline of July 31 following the fiscal year to be audited. From CY 2019, all LGs that have submitted annual reports to CoA within the deadline will have been audited at least once in the previous four years; CoA audit reports will follow an enhanced format and auditing standards to encourage consistent standards across LG financial reporting and CoA audits of LGs in the interim period leading up to the adoption of double-entry bookkeeping and internationally accepted auditing standards. In addition to the financial audits just mentioned, the CoA will undertake a risk-based process, agreed with the Bank, to select LGs whose audit findings and	Yes	CoA, CPSCL	IVA	Each year, the LGs who have a budget above 1 million TND and who are obliged to submit their accounts to CoA, submit their financial statements and accounts to the MoF within the timeframe as stipulated in MMC2 (as designed in the POM). The MoF then transmits the accounts to the CoA before the deadline of July 31 following the fiscal year to be audited. The CoA transmits the relevant audit results to the IVA. The IVA checks the achievement of the relevant objectives.	

		recommendations will undergo follow-up review by the CoA.					
9	DLI 9.a (new) Improved Human resource management – Staffing measures	<p>The first annual target is identified in the form of a governmental decree, with the objective of establishing financial and non-financial incentives to facilitate redeployment of staff to select LGs.</p> <p>CY 2019: Adoption of a Government decree with objective of establishing financial and non-financial incentives to facilitate redeployment of staff to targeted LGs.</p> <p>CY 2020: 50% of target LGs have staffed 4 out of 6 key managerial and technical functions</p>	Yes	MALE/ DGFP/L G/CPSC L	IVA	Based on data drawn from LG staff management information systems, the WB has built a comprehensive picture of staffing in terms of quantity and staff rank across key functions in select LGs. The selection criteria of LGs will be refined with support from MALE and specified in the POM, and will include ensuring that the selected communes are also selected based on the feasibility of addressing staffing in such communes. The functions/responsibilities are General Secretary, Administrative and Financial Directors, Engineers, Architects, Technician and/or IT staff. Starting from CY19, the MALE will submit a report extracted from the staff management information systems to the IVA to monitor staffing progress across the key functions. In addition, relevant legal text formalizing the nomination of staff to specific positions might also need to be submitted to the IVA.	New DLI.

		<p>CY 2021: 70% of have staffed 4 out of 6 key managerial and technical functions</p> <p>CY 2022: 80% of have staffed 4 out of 6 key managerial and technical functions</p>					
	DLI 9.b (new) Improved Human resource management – HRM tools	<p>The first annual target is identified in the form of job descriptions which are key tools for effective HRM. In addition, to facilitate mobility of civil servants, an online job market will be established to link interested staff with vacant positions in LGs. The annual targets are measured as such:</p> <p>CY 2019: Preparation of strategic job descriptions for 6 key functions</p> <p>CY 2020: Implementation of an online job market</p> <p>CY 2021: 100 staff have applied for LG position through the online job market</p> <p>CY 2022: 200 staff have applied for LG position through the online job market</p>	Yes	MALE/ DGFP/C FAD/L G/CPSC L	IVA	<p>The MALE will provide verification of establishment of the required tools (job descriptions) and online job market. The technical specifications for the online platform on job applications should allow tracking historic records of mobility ‘transactions’ including by gender. Summary reports extracted from the online platform will be submitted to the IVA.</p>	New DLI.

ANNEX 3: SYSTEMATIC OPERATIONS RISK-RATING TOOL

Risk Category	Original Rating (H, S, M, L)	Rating from Latest ISR	Current Rating with AF*
1. Political and Governance	Was not included in the original PAD	High	High
2. Macroeconomic	Was not included in the original PAD	High	High
3. Sector Strategies and Policies	Was not included in the original PAD	Substantial	Substantial
4. Technical Design of Project or Program	Substantial	Substantial	Substantial
5. Institutional Capacity for Implementation and Sustainability	Was not included in the original PAD	High	High
6. Fiduciary	Substantial	High	Substantial
7. Environment and Social	Moderate	Substantial	Substantial
8. Stakeholders	Was not included in the original PAD	Substantial	Low
OVERALL	High	High	High

*Rating for the combined Parent and the Additional Financing.

ANNEX 4: TECHNICAL ASSESSMENT – ADDENDUM

Strategic Relevance and Technical Soundness

1. **Decentralization remains a critical foundation of the Tunisian transition and a key pillar of developing a more inclusive social contract.** The Government has undertaken a phased approach to these decentralization reforms, in recognition that decentralization is a multi-faceted process that involves increased citizen voice and devolution of multiple powers and functions. In 2014, the Government established the UDLGP to which the WB is providing financing and technical support. Building on UDLGP's successes, in 2018, the Government requested an AF, as described in the Program Paper.
2. **Based on the recently updated Program midterm review (March – April 2017) and technical assessment (February-April 2018), it is concluded that the Parent Program is technically sound and can serve to significantly deepen progress as follows:**
 - **Sub-Program 1 (SP1) continues to serve the dual purpose of incentivizing and financing the improvement of institutional performance of LGs while delivering municipal infrastructure and services through performance-based capital block grants (CBGs).** By achieving progress against all related DLRs, the Government has demonstrated significant achievements with respect to this Sub-Program, and the proposed AF intends to build on this by supporting a shift to the results-oriented performance assessment system.
 - **Sub-Program 2 (SP2) continues to support improving services in underequipped neighborhoods.** The Government confirmed that serving under-equipped neighborhoods remains a national priority: the number of beneficiaries will increase from 500,000 under the parent PforR to 640,000, while supporting structural shifts in the approach to financing this priority to better align it to the Government's decentralization framework and urban development aspirations.
 - **Sub-Program 3 (SP3) remains technically sound and strategically relevant and it is inextricably linked to SP1 and SP2 by providing capacity support for improved LG institutional development and accountability.** SP3 has played, to date, an important role in helping LGs improve their performance and access their capital grants. Based on new diagnostics and lessons learnt in the past 4 years, significant additional constraints have been identified, and the AF will introduce a process to begin addressing them. LG institutional development represents a key element of the theory of change of the Program as expressed in the following assumptions: (i) LG investments will be more impactful, accountable, and equitable through institutional and systems strengthening; and, (ii) performance-based transfers will incentivize LG institutional reform uptake.
3. **The proposed changes under the AF are critical to scaling up results and impact.** Technical assessments show that the proposed changes are technically sound and strategically relevant. The changes are integrated through a combination of: (1) revised/new DLIs, which further focus the Government on addressing binding constraints and incentivize the Government to adopt critical, structural reforms; (2) new actions in the PAP; and, (3) new TA/capacity building activities. The table below provides a summary of implementation progress under the Parent Program.

Table 1: UDLGP Implementation Progress

	Rating at Concept	Updated Rating	Summary Action(s)	Responsible	Date	Changes Introduced
PDO	Satisfactor y	Satisfacto ry	- Based on satisfactory performance, increase the ambition of the performance assessment (PA) system and reinforce support for integrated investments that address LG-wide development needs and/or improve services in disadvantaged neighborhoods.	CPSCL/ MALE/ CGSP/ MDICI	By end of the Progra m	Agreement was secured with the client to revise the PA to make it more output and outcome oriented, and to revise the design of SP 2 to better align it with the Government's decentralization framework and in accordance with the concept memo proposal.
IP (imple mentati on progres s)	Moderatel y Satisfactor y	Satisfacto ry	- Ensure that the demand-driven TA support under SP 3 is on track. - Continue dialogue with counterparts on political transitions.	CPSCL/ MALE	By end of the Progra m	Agreement was secured on reinforcing the capacity building support and improving human resources management (HRM) to enable LGs to reach adequate staffing and performance levels and effectively execute all their functions.
Techni cal	Moderatel y Satisfactor y	Satisfacto ry	- Scale up the transfer systems supported through the Program and further align them with the Government's decentralization framework. - Refine the PA system to move from many process oriented performance indicators to fewer	LGs/ MALE/ CGSP/ CPSCL	By end of the Progra m	Agreement was secured for increasing the unconditional capital grants' (SP 1) size to the level proposed for 2019 (approximately USD 50 million per year). Agreement was also secured to assist the Government in better aligning the conditional grant (SP 2) with the Government's

			and more output- and outcome-oriented indicators. - Raise the bar of performance expectations for LGs. - Deepen the transparency and accountability systems; facilitate the introduction of international accounting standards; enhance the LG e-Portal; and support the improvement of human resources at the local level.			decentralization framework. The Government has initiated the revision of the PA system to both raise the bar of performance expectations for LGs and to render it more results oriented. Lastly, key changes were agreed on to deepen the transparency and accountability systems, improve public financial management, and enhance HRM.
Fiduciary	Satisfactory	Satisfactory	- Address risk that the CoA will stop producing LG audits.	CoA	By the end of AF preparation	An agreement was reached with the CoA to introduce a risk based audit which will help to maintain an adequate accountability system of the Program.
Environmental and Social	Moderately Satisfactory	Moderately Satisfactory	- Streamline the implementation reporting on environmental and social aspects and put in place a monitoring system for reporting on land acquisition.	CPSCL/MALE	By the end of AF preparation	Agreement was reached that the implementation reporting will be improved during implementation of the AF. Additional measures have been included in the Addendum to the ESSA.
DLI	Satisfactory	Satisfactory	-Disbursement against the DLIs has been satisfactory thus far.	Various Government agencies	By end of the Program	A new DLI was added to incentivize enhancements to HRM and existing DLI DLRs have been extended and/or revised in light of the recommendations of the Program midterm review and the AF preparation (please see Annex 2).

PAP	Satisfactory	Satisfactory	-Nine of the fourteen actions in the current Program Action Plan have been achieved.	Various (please refer to Annex 7)	By end of the Program	New actions have been added to support achievement of Program priorities (please see Annex 7).
Covenants	Satisfactory	Satisfactory	-All covenants have been complied with.	N/A	N/A	Select additional covenants have been included.

Technical Assessment of Program Changes

SP 1: Performance-Based Capital Block Grants (CBGs) for Municipal Infrastructure

- SP 1 will be scaled up and its operational modalities will be refined in order to incentivize more ambitious LG performance and results.** By design, the parent Program did not envisage to expand the CBG levels until the grant system had been put in place, tested and generalized. Therefore, in 2016 and 2017, the CBG per capita was limited to USD 2.3. The original design aimed for CBG levels to double in 2018. However, following the expansion of the population, with the communalization of the Tunisian territory, from 7 to 9.7 million, the CBG levels in 2018 rose only to USD 3.3 per capita instead of USD 4.6. Therefore, the Government seeks to increase the levels of CBG to USD 5.2 per capita from 2019 until the end of the AF period. This increase in the size of the grant is considered optimal given the trade-off between the growing needs at the local level and LGs' absorptive capacity. Additionally, a new tranche-based mechanism for funds transfers will be introduced to improve tracking of implementation.
- Access to CBGs will continue to be conditioned by meeting five minimum mandatory conditions (MMCs), and a more ambitious Performance Assessment (PA) will continue to determine the level of CBG received for 50% of the total amount allocated.** The MMCs remain unchanged (see Table 2), but the PA system will become more difficult as it seeks to reward results.³² After mixed results for the 2016 pilot (21.6% of Program LGs achieved the minimum threshold of 70 points needed for a satisfactory score), in 2017 performance has increased with 75.8% of LGs reaching a score of 70 points or more. In light of the positive results achieved by LGs, the AF preparation and diagnostics, building on the parent Program midterm review findings, concluded that the current PA indicators should be more ambitious, and focus more on outputs and outcomes rather than just processes. Having served its initial purpose of providing a system to support establishing the institutional and fiscal architecture needed for delivering on decentralization reforms, it is timely to recalibrate the PA.

Table 2: Program minimum mandatory conditions (for a grant in year Y)

MMC 1	Budget for year Y has been adopted by the municipal council by December 31 of year Y-1
MMC 2	Financial statement for year Y-2 have been transmitted to the governor before June 30 of year Y-1
MMC 3	The annual investment plan for year Y has been carried out through a participatory approach and adopted by the municipal council before December 31 of year Y-1

³² Indeed in 2016, 92% of LGs have met all 5 MMCs (versus 70% required by DLR 3.2 for this year), this number reaching 98% in 2017 (versus 80% required by DLR 3.3).

MMC 4	Procurement plan for year Y is published on the National Procurement Observatory website before January 15 of year Y
MMC 5	Grant agreement with the CPSCL has been approved by the municipal council before December 31 of year Y-1

6. **The objectives of the PA update are to move towards (i) a more results-oriented system, (ii) a more focused set of indicators, and (iii) scores that are consistent with citizens' perception of their LGs' performance.** Several process indicators will be replaced by relevant output and outcome indicators but will continue to be captured in the assessment as they become built-in as conditions or pre-requisites for achieving the related indicators. Indicators under the new system will be integrated under the condition that they can be tracked using appropriate and reliable data. To ensure relevance of the revised set of indicators, tests on a sample of LGs will be carried out during CY2019 at the same time as the new requirements are shared with the LGs nation-wide, together with appropriate training/seminars, and implementation of the new PA system will be undertaken in CY2020. The original three themes (governance, management, sustainability) will be reformulated to reflect more tangible objectives that would be more easily identifiable by LGs and the citizens. The number of indicators will be reduced from 26 currently to about half of that number, and distributed across three themes. The revised PA system is being finalized with Government stakeholders and the PA indicators will be grouped into on the following themes: (i) service quality, (ii) transparency and accountability, and (iii) management of human and financial resources.

7. **The formula determining the CBG amount each LG receives relative to its PA score will be modified to take into account the higher standards introduced by the updated PA system.** The average PA score level is likely to fall significantly once the PA shifts to a more difficult results-orientation, and this could lead to (i) a higher share of SP1 CBG allocations remaining undistributed, and (ii) a reduction in municipal infrastructures and equipment provided to citizens. Despite good overall results in 2018, the amount of undistributed CBGs (calculated on the basis of 2017 PA) was around TND 10 million. To address this issue, a two-fold mitigation mechanism will be put in place. First, the PA score threshold over which LGs receive their CBG will be lowered to accommodate the more difficult assessment. Currently, to receive the totality of CBG allocated to them, the LGs must meet all MMCs and receive a PA score higher than 70 points (out of 100). LGs that do not meet all MMCs receive no CBG (irrespective of PA score), while LGs that meet all MMCs but obtain a score lower than 70 points, receive 50% of their allocated CBG. Second, a performance bonus is introduced to financially reward the best performing LGs on the PA (a category to be further defined) by making use of undistributed CBG funds.³³ This bonus system would ensure that good performance is further rewarded, while at the same time avoiding a decline in municipal infrastructures and equipment financing by ensuring that the totality of the funds allocated under SP 1 would be distributed to LGs.

³³ When having not received part of their allocated CBG one year, LGs are allowed to get back this amount the next year if they satisfy all MMCs and score higher than 70 points on the PA. The undistributed funds thus correspond to undistributed CBG funds that LGs have failed to get back the next year.

Table 3: Proposed update to the distribution of CBGs under SP 1

All MMCs are met	PA score	% of CBG allocated amount distributed currently	% of CBG allocated amount distributed in updated system
NO	Between 0 and 100	0%	0%
YES	Between 0 and 49	50%	50%
YES	Between 50 and 69	50%	75%
YES	Over 70	100%	100% + bonus if top performer

8. **The new PA system will be applied as of CY2020 (e.g. for CBG 2021 and 2022) to give the necessary time to inform and train LGs on the new system.** To help them adequately prepare for the new system requirements, LGs must be informed of the new system at least one year before (LGs performance are evaluated on the year preceding the year of assessment). Since the process of adopting the new system is estimated to take 3 to 6 months, and the PA begins in February, the earliest feasible year of implementation is 2020. Accordingly, the 2019 PA will be the occasion to run parallel simulations of the new system on a sample of LGs to help identify and address any feasibility issue, notably on the verification protocol, and to make necessary adjustments to the scoring methodology, including to make sure that the points threshold is well-calibrated to indeed represent satisfactory LG performance. There is little perceived risk that the new system would be abandoned after the Program given the high level of ownership of the system by the government and the administrative complexity of modifying the system.

SP 2: Conditional Grant for Funding the National Priority of Upgrading Disadvantaged Neighborhoods

9. **Despite some delays in Program implementation (due in part to the one-year delay in loan effectiveness, as well as to delays in procurement), the initial target of 500,000 inhabitants is expected to be reached within the parent Program timeframe (end of 2019).** As of March 1, 2018, works had started in 91 projects out of 158 (covering 63% of the target population) while they had been finalized in 20 other projects, covering 14% of the target population. This proportion should reach 76% of the target population by the end of 2018 (i.e. the annual target for DLI7 should be met for 2018) according to the projections of the SP 2 Technical Committee. Moreover, the AF preparation confirmed the efficacy of SP 2 Government supervision through the strong coordination of relevant implementing agencies.
10. **Through the AF, this Sub-Program will fund:** (i) about 20 additional neighborhoods that are of a scale comparable to the large projects carried out under the Parent Program (estimated at about USD 1 million per project); and (ii) to the extent it proves practical (based on detailed feasibility assessments), three integrated larger-scale pilot projects in three different LGs (estimated at USD 2.5 to 3 million on average). The beneficiaries of SP 2 would increase from 500,000 to 640,000 beneficiaries.
11. **The changes to be introduced in SP2 will help deepen decentralization reforms by enabling LGs to participate directly in the programming and implementation of the investments falling under their mandate.** The main changes are threefold: (i) the decision to

participate in this grant system will be made by LGs through a call for proposals; (ii) LG selection will be based on transparent and progressive selection criteria; and (iii) a matching element will be introduced and calibrated based on LG capabilities (based on criteria to be established subsequently by a committee).

12. **The LG selection process will be better aligned with Tunisia's decentralization framework.** Under the original design of SP 2, the selection of disadvantaged neighborhoods was made by the central Government (following consultations organized by governors at the regional level). The support to disadvantaged neighborhoods will be adjusted to shift to a system that incentivizes LGs to deliver against national and local priorities. A call for proposals mechanism will be open through which LGs will choose to apply and be awarded funds based on objective and transparent criteria, destined to the modernization of disadvantaged neighborhoods. A successful pilot call for proposals was launched for the additional 2018 tranche³⁴, for which more than 60 proposals were submitted and only 13 projects could be selected. This level of take up shows that municipalities are indeed willing to take the lead on programming and implementation of the investments and prioritize neighborhood upgrading.
13. **A preliminary proposal for SP 2 eligibility and selection criteria has been developed by the Government and WB.** The final list of criteria is to be included in the updated POM. The selection of neighborhoods will be carried out by the CAP and approved by the Inter-Ministerial Committee. Two options will be considered for the selection criteria (i) ranking under the local development index (a proxy of the regional development index); and/or, (ii) neighborhood population. Eligibility criteria for LGs would include the following conditions:
 - Respect of MMCs;
 - LG financial contribution;
 - Minimum number of housing units and minimum population density per neighborhood;
 - Absence of land issues (including for the building of socio-economic infrastructure);
 - Not benefitting from funding for urban upgrading from another national program (third tranche of the *Program for Integrated Development-Programme de Développement Intégré*, *PDI* or second *Rehabilitation and Neighborhood Integration Program-Programme de Réhabilitation et d'Intégration des Quartiers d'Habitation, PRIQH2*);
 - Limit to only 1 project per municipality;
 - Provision of a maintenance plan for the projected facilities (that is integrated with the LG's annual O&M plan and included in the approved annual budget); and,
 - HR eligibility criteria for accessing the second grant threshold (e.g. Secretary General and/or engineer) to make sure the project can be prepared and implemented in a satisfactory manner by the municipality.
14. **The Government expressed commitment to implement more integrated projects, with the view of supporting social and economic development in the select municipalities for Sub-Program 2.** It was agreed that the average grant amount provided under the parent Program for SP2 (TND 1.1 million) would be increased and would be structured around 2 maximum grant thresholds (TND 3 million and TND 7 million). The larger threshold will be conditioned

³⁴ In replacement of 13 neighborhoods that were cancelled under the initial list of target neighborhoods financed by Sub-Program 2 due to delays in the work program of the National Agency for Sanitation (ONAS) (for building /extending the sanitation network in these neighborhoods).

on additional eligibility and selection criteria to be discussed and agreed with the Government. The projects benefitting from larger funding grants through the second threshold will include socio-economic infrastructure (multi-functional community facilities, e.g. libraries, markets, etc.), in addition to other municipal services (roads, public lighting, etc.). Of the amount allocated for the scale up to finance upgrading of disadvantaged neighborhoods, two-thirds would be allocated to projects under the first threshold, while USD 10 million will be allocated to the second threshold.

15. **The financial contribution requirement will directly involve municipalities in the management and implementation of projects and further foster accountability between LGs and citizens.** Municipalities will contribute financially to the project cost through allocating a percentage of their annual investment budget to the project (up to a cap of 20% of the project cost, depending on LG capabilities with criteria to be agreed with the Bank). These figures may be fine-tuned in the coming months in coordination with the counterparts. The financial participation requirement is an innovative approach that breaks with past practices in two main ways: (i) strengthen vertical lines of accountability by putting municipalities directly responsible for the provision of basic services to citizens falling under their mandate in disadvantaged neighborhoods and (ii) provides a new financial set-up that incentivizes leveraging more funding for the upgrading projects.
16. **In addition to the projected changes in the Results Framework (Annex 1), the monitoring and evaluation framework for Sub-Program 2 will be strengthened.** This consists of tracking additional indicators beyond the direct scope of projects implemented under Sub-Program 2 but which have a significant impact on the livelihood of the targeted communities (number of additional connections to the sanitation network and to the drinking water network; length of the underground storm-water drainage system).

SP 3: Improved LG Institutional Development and Accountability

17. **A minor change will be made to the ongoing activities under SP3 to increase its technical soundness and implementation pace.** The establishment of the TA system was delayed. These delays were in part attributed to the parent loan effectiveness delay, extended time spent in designing the TA system, and bottlenecks in procurement. The CY16 Annual Capacity Development Plans (ACDPs) execution was 54%, below the DLR target of 60% of LGs having substantially executed their ACDPs. However, the framework contracts for TA delivery have been signed as of February 2017 and TA execution is expected to increase significantly from 2018.³⁵ In order to place additional emphasis on the TA, the DLI 6 verification protocol would be revised to separately measure the contribution of training and technical assistance to the execution of the ACDPs.

³⁵ The current sub-program focuses on delivering LG capacity building activities through demand-based training and technical assistance. Under Sub-Program 3, LGs received capacity development and technical support to prepare and implement annual capacity development plans via training programs offered by *Centre de Formation et d'Appui à la Décentralisation* (CFAD) and technical assistance (TA) from the *CPSC*. These activities would continue to be supported under the AF.

18. **Based on a technical assessment and lessons learnt on decentralization in the past four years, SP 3 is also restructured to include new areas that are constraints to the fuller achievement of the PDO.** These changes are integrated for four reasons. First, UDLGP experience demonstrates that LG systems, institutional capacity and performance could be strengthened to ensure that investments are implemented in an effective, equitable and accountable manner. Second, the below changes were identified as be constraints to achievement of the PDO, as demonstrated by World Bank diagnostics and the results of the LG performance assessment. Third, the changes are aligned with, and pave the way for, the next wave of decentralization reforms. Fourth, growing international experience shows the strategic relevance of the areas outlined below. The main changes and their technical rationale are outlined below.

Change 1: Greater Emphasis on Institutional Systems and Political Economy Risks

19. **Under the AF, greater emphasis is put on enhancing systems and institutional performance to continue deepening decentralization reforms.** This is done principally by: (1) restructuring and increasing the budget envelope for SP 3; (2) supporting the entity responsible for ensuring the effective coordination and implementation of decentralization policy and legal provisions in the country; and (3) identifying targeted activities to address constraints, increase sustainability and enhance the strategic relevance of the Program. These measures are aligned with the existing and expanding needs and functions resulting from the municipal elections (May 2018) and adoption of LG Organic Law (April 2018).

Change 2: Deepening Financial Management Reforms and Procurement

20. **The AF will strengthen specific elements of LG financial management, which are associated with stronger execution, oversight and accountability.** A key aspect of the Government's LG decentralization program was, and remains, the strengthening of LG financial management, reporting, and auditing, including the adoption of accounting and auditing standards consistent with international standards. The Program financial oversight was successfully performed by the Court of Accounts (CoA - Tunisia's supreme auditing institution) which has managed to audit both the consolidated Program financial statements and so far about 70% of the eligible LGs' financial statements. It is expected that this percentage will increase to 80% in 2018.
21. **The technical assessment identified some deficiencies in terms of LG financial management.** These include: (a) while the expansion of LG audits represents a major achievement, audit quality could be improved; (b) follow up on audit findings could be strengthened³⁶; (c) consistent standards and international norms of audit and accounting could be further integrated at the LG level;³⁷ (d) the CoA faces certain resource and capacity

³⁶ With respect to LG follow-up of actions identified in the audits, at this stage LGs are beginning to identify and track actions.

³⁷ Audits still primarily focus on LG procedures, and do not meet international norms at this time, which, given the cash-based nature of local government financial reporting, would not be possible in any case.

constraints³⁸; and (e) public procurement faces significant delays with weak capacity and systems at the LG level (see also Annex 5).

22. In order to address these deficiencies, the following measures are adopted in the AF:

- The Program is shifting the focus from quantity to quality to focus on higher quality audits, and integrating international standards. DLI 8 will continue the existing requirement that audits of LGs be undertaken, but will be adjusted in two main ways. First, the CoA is set to target cumulatively 100% of LGs audited by 2019 (in 5 years' time since the start of the Program).³⁹ Second, the CoA is set to: (i) target 90% of LGs audited each year starting 2020 using customized auditing standards (which are based on risk); (ii) target and maintain starting 2021, 100% of LGs audited each year starting 2020 using customized auditing standards (which are based on risk); and (iii) follow up on implementation of audit recommendations. This will help to focus the audit on the critical risks that could affect the Program to achieve its results. This will be done by (i) the enforcement of appropriate auditing standards with regard to context (small level of transactions at the LG level); (ii) the development of a risk map; and (iii) and the monitoring of the recommendations formulated by the audit reports. The audit reports will follow an enhanced format and appropriate auditing standards to encourage consistent standards across LG financial reporting and CoA audits of LGs in the interim period leading up to the adoption of double-entry bookkeeping and internationally accepted auditing standards.
- Audit follow-up will be strengthened. From CY 2020, CoA will follow a risk-based selection process agreed with the Bank to select LGs whose audit findings and recommendations will undergo follow-up review by the CoA.
- To improve audit standards, the following measures have been identified: (i) improvement in the capacity of the CoA, in particular that of its local branches; and (ii) preparation and implementation by LGs of action plans to address audit findings within a period of six months after the receipt of the audit report.
- An additional PAP action will be introduced to promote the development of LG accounting and auditing standards consistent with international norms. This action supports progress on the establishment of modern accounting standards that will allow both the tracking of revenues and expenditures, but also clear statements regarding LG assets and liabilities and the sources and uses of funds. The World Bank and the Government have worked jointly to define a number of legal⁴⁰ and technical assistance pre-requisites to the ultimate adoption of modern accounting and auditing standards, and have begun to identify sources of funding for technical assistance.
- A new PAP action will be included on implementing a procurement capacity building program for LGs to support operationalization of a decree mandating the use of TUNEPS "e-procurement" by all public procuring entities, which will apply to LGs from September 1, 2019 (Decree no.416 2018).

³⁸ While the CdC received some support from the government for the carrying out of audits LGs (e.g., travel expenses), their overall resources and capacity have not increased to cover the new responsibilities, they have had to move auditors from other sections to cover the requirements (leaving other responsibilities unmet), and they have not received support for the decentralization of their offices.

³⁹ The target of 100% of LGs being audited applies to those LGs that have submitted their accounts and supporting documentation to the CdC by the deadline of July 31 following the fiscal year to be audited

⁴⁰ Issuance of decrees regarding LG accounting and auditing; carrying out of LG asset registries and establishment of initial balance sheets; introduction of standards to LGs

23. **The above measures have been demonstrated, internationally, to improve LG financial management performance.** The adoption and use of such standards would enable an enhanced understanding of LG financial strengths and weaknesses, in particular their liquid assets and their liabilities, and patterns of each, as well as the adoption of ex-post management and financial controls, in contrast to the current ex-ante controls. This would increase oversight and help better track and curb resource use (or misuse).

Change 3: Address Critical HR Constraints

24. **Human Resources Management (HRM) is an area identified as one of the most critical constraints to the implementation of the Program and the achievement of the PDO.** The issue of HR emerged in the technical assessment as one of the constraints to furthering LG performance in Tunisia. The key findings are summarized below.
25. **Pressure on the low number of LG staff will be expected to increase in anticipation of the next round of decentralization reforms and accompanying transfer of further service delivery responsibilities to LGs.** LG staff are estimated at around 5% of total Government workforce which amounts to approximately 30,000 employees in comparison with approximately 650,000 employed by the central administrations.
26. **Public employment in LGs is characterized by (i) regional imbalances in terms of staffing and human resource capacity⁴¹ between northern and coastal municipalities and interior and rural ones; and (ii) globally low supervision-to-staff ratios (category A1 and A2 staff), which vary between 2% in some municipalities to upwards of 15% in others.** The supervision-to-staff ratio in LGs has continually declined over the years and reached an average of 10% in part due to the regularization of large numbers of low-skilled temporary workers as a response to social pressures that surfaced after the 2011 revolution. In the absence of reliable assessments of staffing and capacity gaps, heavy controls from central authority and inefficient HRM systems have further burdened recruitment and hiring procedures, with many positions remaining vacant for extended periods while needs accumulate.
27. **Important gaps in terms of human resources need and capacity exist across the country's municipalities.** The World Bank and the Ministry of Local Affairs and the Environment (MALE) have worked jointly to analyze existing human resource gaps across six functions⁴² considered critical for the proper functioning and delivery of municipal services via LGs (see Box 1). The analysis has identified several gaps across key functions such as administrative and financial managerial positions, and other highly technical positions generally occupied by architects and engineers. To date, around two-thirds of LGs do not have a qualified engineer and seventy-five percent do not have an architect on their payrolls. In addition, more than 20

⁴¹ The general statute of civil service in Tunisia encompasses central administrations, public agencies, and local governments.

⁴² The six key functions are: Secretary General, Administrative Manager, Financial Manager, Engineer/Senior Technician, Architect/Urban Planner, and IT officer

municipalities do not have a qualified administrative or financial director within their administration.⁴³ In total, the analysis has estimated that more than 1,100 staff would need to be hired to ensure that each key function is filled by at least one staff in all LGs. The analysis therefore does not account for other LG characteristics such as population or geographic perimeter which are likely to expand the number further (e.g. the number of administrators needed in a municipality with 300,000 inhabitants is not the same as a municipality with a population of less than 10,000 people).

⁴³ Qualification is measured in terms of whether a staff possessing a rank that is equivalent to the required function is currently occupying a position in the municipality.

Box 1: Approach to Public Employment Gap Analysis in Local Governments in Tunisia

At the onset of the technical assessment, anecdotal evidence from the Government and LGs seemed to indicate the existence of critical shortages in human resources across most municipalities, particularly in interior and rural ones. The shortages were said to concern managerial and specialized technical functions.

The World Bank and the MALE have worked jointly to analyze existing human resources gaps across six functions considered critical for the proper functioning and delivery of municipal services. These posts are: Secretary General, Administrative Manager, Financial Manager, Engineer/Senior Technician, Architect/Urban Planner, and IT officer. The analysis relied on three main parameters (i) each critical function was mapped to the equivalent existing employee ranks on the civil service pay scale; (ii) in small municipalities it was estimated that one employee could ensure both managerial functions (smaller than 5,000 people), and similarly, it was estimated that municipalities smaller than 20,000 people needed either an architect or an urban planner; and (iii) a gap was recorded when no employee possessing a rank that is equivalent to the required function was hired in the municipality.

The analysis relied on granular data collected from two payroll management information systems (INSAF and Ojoor) which cover 97% of LGs. This enabled an analysis sufficient to define clear issues and targets. The main drawback from this approach is that to the analysis could not nuance between the functions each employee was responsible for executing. For example, the analysis was not able to distinguish between financial and administrative managers. For each municipality, the data captured individual level data showing composition of staff by rank including their date of recruitment. Most notably, the analysis recorded large staffing gaps across technical functions in practically all municipalities. The table below shows that: (i) only four municipalities employed city planners, (ii) around 65% did not employ engineers, and (iii) nearly 75% had no architect on staff. The analysis also showed that nearly all municipalities (93%), independent of their size and resources, had staff on record with equivalent IT qualifications. Regarding managerial functions, 24 municipalities were not staffed with an employee possessing a managerial rank. In addition, a similar number of municipalities were operating without a secretary general according to the Ministry of Local Affairs and the Environment.

Minimal number of required staff to fill key functions across all municipalities

Key functions/Population size	>100,000	50,000 - 100,000	20,000-50,000	5,000-20,000	<5,000
Managers	0	0	8	14	2
Engineers	1	7	74	83	0
City Planner	9	30	121	0	0
Architects	0	10	94	86	9
Senior Technician	0	6	71	69	9
IT officer	13	37	197	163	9
Total	23	90	565	415	29

28. **Addressing urgent staffing constraints facing LGs should be done with consideration to broader and structural weaknesses characterizing the civil service in Tunisia.** Moreover, addressing human resources capacity gaps and needs in LG will be crucial to prepare for the next round of decentralization reforms. In recent years, salary increases have led to an uncontrollable growth in the wage bill. The central government wage bill has reached around 14.5% of GDP in 2017, and represents almost 50% of government spending (excluding debt

service). This has had two main outcomes: (i) further constraining the government's fiscal space in a challenging economic environment; and (ii) creating a complex and unequal salary structure which hinders efficient allocation of human resources. As part of the IMF EFF program, the government has introduced stop-gap measures to control wage bill growth, including recruitment freezes as part of its 2018 budget law and two voluntary departure programs for all public employees. In parallel, the Government has also called on central and local administrations to redeploy staff between ministries and LGs to optimize government activities in line with actual and future needs.

29. **Administrative controls imposed by the system are sometimes heavy, and can complicate civil service management at the local level.** For example, controls have come in the form of staffing or wage spending caps to help manage the fiscal burden of staff wages and salaries on the LG's budget. Recognizing the fiscal risk that wage bill spending poses on LG financial health, the LG Law in Tunisia has instituted a 50% ceiling on wage bill spending as a proportion of LG current spending. These types of controls, however, can have unintended consequences such as depriving LGs in rural areas from much needed competencies and human resources to deliver services and conduct public works. These controls must be well designed to prevent distortions.
30. **Civil service recruitment process for LG staff can be cumbersome and time-consuming, and does not always achieve the planned results.** For example, to fill a job vacancy recorded in the annual workforce staffing plan which had received prior approval from the municipal council and central authority, LGs are still required to go through an additional layer of approvals from the central authority before initiating the recruitment process. Moreover, competitive recruitments are cumbersome and time-consuming to organize due to the multiple actors involved (municipalities, ministry of local affairs, and the Civil Service Directorate) and lack of a streamlined process. According to the Civil Service Directorate, competitive procedures⁴⁴ could be in principle conducted in 3 months, though anecdotal evidence shared with the World Bank found that these recruitment processes could last much longer (upwards of 2 years in some cases).
31. **In light of this diagnostic of the structural and LG level constraints on better HRM, the World Bank and the Government have agreed on a number of critical measures related to HRM.** Based on good practices and the local context, this can be summarized by a three-pronged approach: (a) implementing a short-term action plan for staffing and incentivizing the filling of strategic posts through the testing and implementation of new and existing staffing mechanisms; (b) deepening HRM reforms at the level of MALE and LGs for improved strategic staffing and HR allocation; and (c) undertaking one structural civil service reform to support an enabling environment for adequate LG staffing in the medium and longer term. Key measures as follows:
 - **The AF will support a targeted set of activities designed to encourage take-up of key managerial and technical posts in LGs.** This would be achieved through: (1) the

⁴⁴ Opening the competitive call, setting the selection criteria, collecting applications, convening a selection jury, and selecting successful candidates.

simplification and acceleration of existing staffing mechanisms; and (2) the introduction, and testing, of a financial incentive to encourage staffing mobility to LGs.

- **The staffing mechanisms that can be simplified and improved to include:** competitive recruitment procedures, geographic mobility between LGs, geographic redeployment between centralized and deconcentrated authorities, and LGs. Administrative procedures regarding mobility of staff remain particularly restrictive. If an employee were to request a move from one LG to another, a first clearance would need to be reached between the two implicated LGs, then a second clearance is required either from the governor when LGs are located in the same governorate or from the central authority if they belong to different governorates. For managerial staff, mobility requests are systemically authorized by the General Civil Service Directorate. Another systematic challenge facing scale up of mobility is the weak matching between supply and demand; potential candidates lack timely access and information on advertised/open positions while potential employers lack access to profiles of said interested candidates. Keeping a historic record of mobility ‘transactions’ would be very helpful to inform policy and reform measures.
- **Beyond administrative procedures, structural challenges such as salary differentiation between professional groups can impede vertical mobility, as they can result in some financial loss to the employee and entail various bureaucratic hurdles.** Financial and non-financial incentives (such as career acceleration) to promote mobility of staff must be taken into consideration in any future legal text to mitigate for potential losses. The incentives could be defined by governmental decree and take the form of an allowance top-up to the salary. Its amount would range between 300 and 600 TND / month stretched over a period of 3 years (an average of 600 TND/month is equivalent to 50% of average net monthly salary which has been proposed as a legal ceiling in the LG Law regarding allowances given to staff redeployed to LGs). The top-up would be presented as a one-time “relocation grant” disbursed over 3 years to staff willing to redeploy to LGs located in specific geographic zones. This would mitigate any grievances from staff currently occupying posts similar to those benefitting from the grant. It would be granted for those who take up one of six key posts (general secretary, engineer, architect, city planner, administrative director, financial director, IT officer) in priority LGs. The government decree would cover various elements including (i) requiring precise job descriptions for each post; (ii) financial incentives that would vary according to employee rank and geographic location of the LG; and (iii) potentially, define non-financial incentives to promote staff mobility to interior and rural areas. In exchange, the selected candidate would commit to fixed-term placement; otherwise total or partial refund of the allowance would be required. Candidates would be selected through a recruitment process facilitated by jury selection. The management of said top-up would fall under the responsibility of the Ministry of Local Affairs and the General Civil Service Directorate.
- **These activities would be reflected in a new DLI (9),** structured at two levels:
 - a. DLI (9.a) which focuses on implementing a short-term action plan for staffing and includes: the adoption of a government decree (with the objective of establishing financial incentives to facilitate recruitment of staff to priority LGs through redeployment) in 2019, and the proposed targets for the last three years of the Program

- would be 50% in 2020, 70% in 2021, and 80% in 2022 of target municipalities that have filled key 4 out of 6 managerial and technical posts.
- b. DLI (9.b) which focuses on developing HRM tools for MALE and LGs through preparation of strategic job descriptions in 2019, creating access to an online job market to link interested staff with vacant positions in LGs in 2020, and the proposed associated target of 100 staff have applied for LG positions through the online job market platform in 2021, and 200 staff by 2022.
- **The targets included in the DLI have been discussed at length with all key counterparts,** including the Ministry of Local Affairs, the General Civil Service Directorate to the Presidency of the Government, Ministry of Finance, and several LGs. The World Bank will provide technical assistance to the government to support the development of the decree and preparation of standard job descriptions for each post covered by the decree. The baseline value for the staffing target was calculated at approximately 30%, i.e. around 80 municipalities have currently filled key 4 out of 6 managerial and technical posts. The proposed staffing targets are considered realistic considering the analysis and diagnostic conducted jointly with the government. It was agreed with the government that disbursement against staffing targets for DLI 9a will be proportionate to actual results achieved. DLI 9b targets focus on implementing practical tools to help unlock bureaucratic constraints such as simplification of administrative procedures through use of ICT. Areas for complementary technical assistance have been identified to support achieving these targets. Further emphasis will also be put on ensuring training needs of redeployed civil servants are met through the capacity building program delivered by the CFAD.
 - **The introduction of HRM reform at the LG level will put in place the foundations of a data-driven HR approach, premised on strategic staffing.** This will reinforce the development of a clear and comprehensive inventory of skills requirements for different tasks and of current and desired supervision ratios in different LGs. Strategic staffing plans would allow to optimize recruitment decisions and processes and allocate resources more efficiently. Currently, strategic workforce planning processes are limited or nonexistent, but could be launched gradually. The Program's PA system will increase the incentive for LG performance on staffing and recruitment planning. The revised PA system will include indicators to incentivize better and more transparent HR planning to ensure staffing skills and gaps are met to cover core functions and positions in LGs. The PA indicator will require LGs to publish annual HR reports, which will also be reflected through the e-portal (below).
 - **A complementary measure in the PAP will support the deployment of HRM tools at the level of MALE and LGs through:** (i) preparation and deployment of job descriptions for key functions in LGs, and (ii) updating a guidance manual on staffing and recruitment in LGs.
 - **To accelerate its response to urgent staffing needs in LGs, the Ministry of Local Affairs and Environment is also exploring extending the government's active labor market programs to LGs.** This would allow municipalities to benefit from hiring

qualified candidates on temporary basis to perform key technical functions at subsidized rates. For example, the Karama ‘Dignity’ program, managed by the Ministry of Employment, would grant LGs access to a pool of candidates that can be hired for up to 2 years (unemployed university degree holders without prior experience).⁴⁵ The current mechanism, implemented for private sector beneficiaries, targets first-time job seekers by offering them a 2-year contract at a minimum guaranteed salary of 600 TND, of which 400 TND is covered by the employment fund managed by the Ministry. In exchange, the private sector company commits to hiring at least half of the recruits it has employed through Karama. In 2017, the Karama program has managed to place 17,000 job seekers into companies, out of a target of 25,000.

- **While active labor market programs such as Karama, could present an attractive alternative for LGs with limited financial resources, the World Bank assessment, as formally shared with the government, highlights two main weaknesses:** (i) the target population, first time job seekers with university degrees, do not possess a level of skill and experience that would adequately respond in most cases to the skill profiles sought by LGs, and (ii) it poses future financial risks to LGs which might excessively rely on this mechanism, further complicating integration of recruits into the civil service.⁴⁶ Further work should therefore be completed to define the conditions and rules under which Karama could be used and identify strict selection conditions with regards to profile of recruits (recruits with technical profiles such as engineering and IT could be readily available through Karama but should be required to complete extensive training, in line with specific needs of LGs).

32. It is deemed that the General Civil Service Directorate and MALE, and the other affected entities, have adequate capacity to begin addressing HRM issues but this needs further strengthening. As such, areas for TA are identified and integrated into the AF Program design. Through TA, the World Bank will support the GoT in implementation of broader complementary structural reforms to improve civil service management at the central and local levels. This will be financed through TA by the Moussanada Trust Fund. In terms of structural reform, the World Bank will support the Civil Service Directorate in strengthening the legal framework for public sector redeployment and mobility and developing analytical tools and methods to better identify needs and HR gaps. Parallel support to the Civil Service Directorate and MALE will also help design and pilot a strategic workforce planning framework which consists of developing tools to help better manage recruitment, jobs, and skills (*Gestion prévisionnelle des effectifs des emplois et des compétences*, or GPEEC), including: (i) job descriptions; and (ii) job and skills benchmarks. Finally, the TA will help identify bottlenecks in administrative procedures for recruitment of staff in order to simplify and streamline procedures.

⁴⁵ The Ministry of Employment and Professional Training said it was currently reviewing the current Karam decree (Decree 2017-358, March 2017) to expand its scope to include public agencies as beneficiaries.

⁴⁶ Similar government funded short-term jobs had been created in previous years to provide short-term internship opportunities in the public administration, which were then quickly redesigned to allow for some contracts to be renewed on a regular basis (anecdotal evidence suggested that some contracts were renewed on a regular basis upwards of ten years). Under social and political pressures, the government recently adopted a decision to regularize some 20,000 beneficiaries into the civil service.

33. **These HRM measures are strategically relevant yet they also present risks, so mitigation mechanisms have been devised.** This is briefly summarized in Table 4 below.

Table 4: Summary of HRM Risks and Mitigation Measures

Risk	Mitigation Measures
HR issues take time to resolve.	Adoption of realistic targets; work on three levels (Civil Service Directorate, Ministry of Local Affairs and Ministry of Finance, and LGs) to address different HRM constraints.
Wage bill growth.	Emphasis is placed on mobility and redeployment (thus wage bill neutral); all staffing will follow existing wage bill control measures; measures will be strengthened to ensure staffing aligns with a clear plan for financial sustainability.
Karama program may be able to staff some technical posts, but only to a limited degree as it benefits candidates with limited experience.	The government would need to review and redefine the conditions and rules under which Karama could be used in the public sector and identify strict selection conditions with regards to profile of recruits (recruits with technical profiles such as engineering and IT could be readily available through Karama but should be required to complete extensive training, in line with specific needs of LGs).
Certain recruitment/staffing mechanisms are slow, but there are multiple opportunities for accelerating them.	Areas of complementary TA has been Work in close partnership with the Civil Service Directorate to move the agenda forward.
Financial incentives may be necessary but insufficient	This is recognized, but a number of posts could still be encouraged through small financial incentives. In parallel, and in the medium term, the program recommends finalizing and adopting the decree on redeployment, which will strengthen both financial and non-financial incentives.

Change 4: Deepening Accountability and Citizen Engagement

34. **The technical assessment also identified the need to further strengthen accountability and citizen engagement.** Tunisia has made important progress in transparency, accountability and citizen engagement through a series of reforms, though reform implementation has been slow and patchy.⁴⁷ The UDLGP has equally made progress on supporting participatory planning systems, introducing mechanisms to facilitate disclosure of information (E-portal), increasing opportunities for citizens to express their views outside of council meetings (as measured in a performance indicator), and ensuring at least the process requirements for grievance redress (GRS focal point, register of complaints, and a high percentage responded to) are met.

35. **In spite of progress in these areas, the AF technical assessment identifies important areas for strengthening.** The main findings from the technical assessment include the following:

- (i) **First, progress on LG performance indicators points to the need for some adjustments.** This would include strengthening the access to information for citizens, a more results-oriented focus on grievance redress, and to build mechanisms for citizen feedback on service quality as

⁴⁷ Following the transition, Tunisia has adopted a range of critical laws and policies to facilitate greater transparency and citizen engagement, such as the Access to Information Law, constitutional provisions on public participation and a range of mechanisms for citizen engagement in sectoral projects.

well as the Program.⁴⁸ Based on process data collected from the PA (number of meetings, meetings prior to municipal councils, etc.), a majority of municipalities are complying with the indicators on participatory processes (with only 9% of municipalities not reporting regular municipal council meetings, and 19% not reporting preparatory citizen meetings prior to meetings). However, the current indicators are not able to provide information on the quality of participation, or whether the feedback provided is taken into account, nor whether it leads to inclusion or changed decision-making. The revised PA will include an indicator to measure whether citizen feedback provided in preparatory meetings are discussed in regular meetings of municipal councils.

- (ii) **Second, citizen access to key information on LG affairs and performance has not improved significantly with the Program.** The corresponding PA indicator measuring citizen access to key information receives scores among the lowest of all indicators (over 50% of communes had a score of zero). This is attributed to: (i) a significant number of municipalities having no operational websites (around 130 LGs [nearly 50% of all LGs] have no operational website); (ii) difficulties in publication via the Ministry E-portal;⁴⁹ and (iii) a lack of municipal disclosure via other means such as public posting.
- (iii) **Third, performance on grievance redress is mixed and inconclusive.** Most municipalities state they have a GRM focal point (100%), keep a register (93%) and respond within 21 days (71%). However, because the GRM decree on grievance redress does not define what “respond to” means – whether it implies simply acknowledging the complaint or addressing the underlying issue – it is not clear whether these systems are functional and used by the population.⁵⁰
- (iv) **Fourth, as decentralization reforms deepen, transparency and accountability mechanisms at the local level will need further strengthening.** Transparency and clarity on decentralization plans and delineation of lines of responsibilities and control between tiers of governments will be crucial to enable citizens to hold their elected officials and local civil servants accountable for service standards and performances, while reducing vulnerability to corruption. Similarly, establishing effective monitoring mechanisms can enable better alignment between public services and citizen demands, particularly if accountability lines for local civil servants are clear.

⁴⁸ The Program’s ability to foster inclusive local deliberations will be important for addressing underlying causes of instability and exclusion. Large scale analysis of local deliberation processes (in India) which involved quotas for women and for other specific groups (youth) demonstrates that the mere presence of specific groups in consultative meetings does not necessarily lead to greater voice in local decision-making. These studies found that the determining factor in whether women’s participation in local meetings resulted in greater voice, or greater discussion of the issues they raised, was the proportion of municipal council members who were women.

⁴⁹ Unclear roles and responsibilities and lack of ownership (while CPSCL has most of the data, the focal point is technically the MALE), and weak communication around it has not permitted the portal to reach its full potential as a key source of information on LG affairs and performance. In general terms, LGs are typically responsible for ensuring that the data is disclosed (i.e. timely budget, procurement, progress, meeting minutes), while civil society plays an important role in disseminating such information in a useful form.

⁵⁰ At present, there are several parallel electronic complaints systems being developed: The Bureau Central des Relations avec les Citoyens (BCRC) is developing an online grievance form; the World Bank has supported the development of Chikaya which serves a similar function, but has not yet been launched; GIZ has supported the development of a one-stop-shop for both service requests and complaints called ‘Espace Citoyen’ and an application ‘tounes endhifa’ (Clean Tunisia) is also being developed for the environmental police.

36. **The AF will address these constraints with the goal of improving access to services.** The AF will focus on the following elements:

- **Deepening accountability and citizen engagement by improving both access to and coverage of key municipal data, which supports the operationalization of the Access to Information Law in Tunisia.** Transparency will be strengthened by ensuring that key reports are easily accessible to the public and published on the LG E-Portal as well as in physical form at LG offices. Results in this area will be incentivized by:
 - a. **A revised DLI (8a) to ensure regular disclosure of key and relevant information in user friendly and accessible formats.** The DLI ensures that data that is useful to citizens and businesses is disclosed. This data includes: population estimates, HR data (staff by category, grade, age group, gender, average salary), GRM data (type, resolution rate, response rate) MMC Results, PA results, CBG amount, Audit Report (or link), Procurement Plan (or link), Link to LG websites; and detailed budget data (expenditure, revenue, debt). The data is detailed in Annex 2.
 - b. **Reinforcing the LG PA indicator relative to information disclosure.** The online disclosure will be complemented by a requirement, through the LG PA system, for LGs to physically disclose information (such as on noticeboards) so that citizens who do not use the portal can access the information;
 - c. **Implementing parallel TA through SP 3 and other grant sources to strengthen e-portal use, accessibility and publication.** These activities were identified as part of the AF and will be put into motion once the AF is effective;⁵¹ and
 - d. **Introducing actions in the PAP to improve use and accessibility of the E-portal.** The associated actions comprise of: (1) enhancing the portal to allow automatic interfacing with national information systems for timely publication of data; (2) publishing digital versions of project related documents; (3) enhancing LG websites to support more user-friendly information and citizen feedback.
- **Deepening citizen voice and accountability through strengthened grievance redress.** This will be achieved primarily through strengthening the opportunities for citizens to submit complaints, and report potential cases of corruption so that sanctions are enforced. Functional grievance redress is critical both for overall Program risk management (including social and environmental risks) and to mitigate some of the risks of decentralization. While the PforR has made advances on municipal grievance systems, the AF has identified the need to strengthen the overall functionality of the systems. In order to be functional, grievance redress systems need to include public notification, and protocols which guide municipal staff on rules for appeal, which grievances fall under the

⁵¹ The E-portal currently relies on manual updates which has added to the complication of publishing information and data in regular intervals. Automating the publication of certain data through creating interfaces between national applications such as the expenditure and revenue management systems (ADEB and GRB, respectively) and HR information systems (INSAF and Oujoor) with the E-portal, would facilitate publication of at least key information. In addition, LGs should also be encouraged to display information and key documents in public places/boards in order to ensure citizens can access the information, and to pursue parallel channels for transparency. In addition, it would be important to define and publicly communicate the “key” documents that should be made available. Such localized information on norms is important to allow citizens to also provide feedback on whether municipalities have conformed to the performance indicators. More broadly, in order to have a fully operational E-portal, it is recommended that a working group between CSPCL and MALE be facilitated to accelerate the next stage of the E-portal (including integrating budgetary data and launching the communications plan) and clarify responsibilities for the flow of information and ownership.

direct jurisdiction of the Municipality, and when grievances can be considered closed. In order to be effective, the existence of such systems needs to be widely communicated, and the information systems they are entered into need to facilitate real time access to data. Functional grievance redress is also a critical component in monitoring social and environmental project risks. The LG GRM system will be strengthened under the AF in three main ways:

- a. A new LG performance indicator will be introduced to assess the functionality⁵² of grievance redressal in resolving grievances;
 - b. A new PAP action, with accompanying TA, will be introduced to strengthen GRM functionality so that grievances are adequately address. This will reformulate program Action #14 to include: (1) supporting development of GRM protocol to improve the functioning of small, medium, large LGs; (2) undertaking training/TA for municipalities to strengthen GRM; and (3) testing technological options to improve GRM.⁵³
 - c. A new indicator in the Results Framework on GRM.
- **The AF will support the Government in piloting a citizen feedback survey on LG services through a new PAP action financed by grants.** This will enable Tunisian LGs to pilot citizen feedback models and begin to institutionalize them within their administrative systems. This will further enable LGs to understand the needs of vulnerable groups, such as women and the youth. Moreover, a key vehicle for citizen engagement continues to be the participatory planning process rolled out under the parent Program.

Change 5: Integrating Innovations and Technology

37. Cutting across the above, the AF will make greater use of technologies to improve LG performance and accountability. This is notable in three main ways: (a) opening up data through the e-portal; (b) applying ICT to grievance redress and citizen feedback mechanisms; and, (c) moving towards an ICT/data-driven HR approach to transform HRM.

Complementary Technical Assistance

38. The Bank has mobilized, and will continue to mobilize, complementary TA from other sources to strengthen implementation. The Bank has mobilized resources from various TFs to fund TA for implementation of the Program at the national and LG levels. This has included

⁵² A functional system would be one: (a) Able to quickly produce data on grievance by type (for example, solid waste, ID, land dispute, social or environmental issue etc.), by level of resolution, and by time to finally resolve as well as respond and keeps a register/records; (b) Accessible in-person and online at a minimum with public signage on citizens' rights to submit complaints and process for appeal; and (c) Governed by a Protocol laying out the procedures as well as right of appeal and (d) Provides data on aggregate complaint types and time of resolution is publicly posted at the locality.

⁵³ In order to serve as an effective tool for improving municipal management, and incentivizing and evaluating subcontractors' performance, it is important for such systems to automatically tally complaints by type, level of resolution, and location – which can often be done by pre-populating the most common problems reported - and provide municipalities with sample Protocols. This could be supported under the World Bank TA. The Protocol is a document that provides all of the rules governing jurisdiction of complaints (including when the municipality is not responsible but just refers complaints, when a complaint can be considered “closed”, what the process of appeal is, etc.), and ensures that staff in the municipality are all on the same page. Ideally this would also include an automatic question on satisfaction with a complaints process at the end of the process.

funds from a multi-donor trust fund administered by the WB (Moussanada) and other MDTFs in areas including: E&S aspects, Technical Quality, PFM and M&E.

Institutional Arrangements

39. **Overall, implementation of the Program will be carried out by the same entities, which have proven their ability to effectively implement the Program.** The implementing agency will remain CPSCL, under the supervision of its line ministry, Ministry of Local Affairs and Environment (MALE), and supported for specific aspects of the Program by Contrôle Général des Services Publics (CGSP), COA, CFAD. The Ministry of Finance (MoF), responsible for financing the Program's activities under its budget, has been transferring funds adequately both in terms of amounts and period. The Inter-Ministerial Committee (IMC), in charge of overseeing coordination of the Program and deciding operational changes, has been meeting regularly and was able to make necessary decisions (e.g. yearly approval of PA final results, updates to PA indicators or MMCs).
40. **The creation of the MALE in January 2016 has moved oversight of LGs outside the purview of the Ministry of Interior.** In August 2016, the Ministry of Local Affairs was merged with the Ministry of Environment, and a new organization structure for the MALE was adopted and eventually applied in 2017. One of the consequences was the split of the General Directorate for Local Governments (DGCPL) which notably served as the secretariat for the IMC and had few operational responsibilities, into two new directorates (one focusing on financial aspects of local governance, and the other on overseeing subnational projects). As of January 2016, the line responsibility for CPSCL and CFAD was transferred from MoI to MALE. These institutions did not in practice experience any significant change with regards to institutional or operational aspects related to the Program. While this institutional reshuffling certainly represented an internal challenge for the concerned institutions, it did not affect implementation of the Program as no significant issues were noted in relation to this change.
41. **The institutional set-up for SP 1 will remain unchanged in the light of the satisfactory performance of the concerned implementing agencies.** No major technical or fiduciary issues in the implementation of SP 1 has been noted by the Independent Verification Agency (IVA). CPSCL has been timely verifying MMCs and subsequently transferring CBGs as soon as they receive the funds from MoF. Despite limited human and material resources, CGSP has been carrying out the PA, including verification field visits, in a way that has been deemed satisfactory by all stakeholders, including the World Bank and the IVA. In addition, the ongoing digitalization through the e-portal of several Program-related procedures, including MMC and PA processes, will support the strengthening of the technical and fiduciary soundness of the Program implementation.
42. **The institutional set-up for SP 2 will remain unchanged for the municipalities benefitting from a conditional grant within the first maximum threshold (of TND 3 million).** Whereas in previous upgrading policies, project preparation and implementation was systematically delegated to a national implementing agency (ARRU), municipalities are given the option to implement directly their projects (with or without the assistance of a private design office for project follow-up). Although around 60% of the 158 projects under SP 2 have been/ are

implemented by ARRU, municipalities have proven efficient in the management of the remaining 59 projects in comparison with ARRU. According to the latest figures shared by the technical committee ensuring SP 2 follow-up, for the 2015-2016 and the 2017 tranches, works had started in 92% of the projects implemented directly by municipalities and in 83% of the projects implemented by ARRU at the end of February 2018. For municipalities benefitting from a conditional grant beyond TND 3 million, an additional eligibility criterion has been introduced to ensure that municipalities without a Secretary General and an engineer are supported either by private offices or by ARRU to ensure good implementation of their project.

43. **SP 3 will continue to operate overall under the same institutional set-up with a few additional entities involved in its implementation.** CPSCL and CFAD will continue to provide respectively technical assistance and trainings to communes. MALE, as well as its department of Human Resources, will play a more central role in the human resources and accountability work. In addition, strategic partnerships (e.g. memoranda of understanding) will be built with the Civil Service Directorate (under the Presidency of the Government) and the COA to ensure achievement of Program objectives.

Other Technical Assessments

Economic Analysis

44. **Economic internal rates of return (EIRRs) for urban infrastructure.** One of the two objectives of the Tunisia UDLGP is to strengthen LGs' performance in delivering municipal infrastructure. The menu of eligible investments includes: (a) construction and rehabilitation of urban roads and sidewalks, (b) street lights, (c) stormwater drainage systems, (d) parks and recreational facilities, and (f) urban economic and social infrastructure (markets, bus stations, community centers, pre-schools, and other small-scale facilities). LGs select investments from this menu through a participatory process. Under SP 1 of the ongoing Program, in a sample of 56 of the 272 participating municipalities—ranging in size from 2,000 to 652,000 inhabitants—about 32 percent of funds has been spent on urban roads and sidewalks, 8 percent has been spent on street lighting, and 4 percent has been spent on stormwater drainage. Most of the projects are small-scale. For example, 58 of 67 contracts for roads and sidewalks were below USD 500,000. Under SP 2, 94 percent of funds have been spent on roads, 5 percent has been spent on street lights, and 1 percent has been spent on drainage. Data available for specific investments under the ongoing UDLGP are not sufficient to allow calculations of net present values or EIRRs for such investments, and the World Bank is offering parallel M&E support to help generate the data needed to conduct economic analyses of LG investments. This economic analysis will therefore draw on the results of economic analyses done for similar types of investments carried out under WB-financed operations in other countries.
45. **Evidence from similar investments in other countries indicates that they provide benefits in excess of costs.** Investments in urban roads typically generate EIRRs of between 10 and 33 percent. Investments in drainage systems result in EIRRs of between 7 and 32 percent. An economic analysis for investments in urban street lighting in Uganda provided an EIRR of 27 percent. The non-quantifiable benefits accruing to urban infrastructure investments are also

evaluated as being significant. Details of the benefits of various types of urban infrastructure follow.

- 46. Benefits of investments in urban roads.** The benefits associated with improved roads are (a) travel time savings; (b) travel cost savings; (c) reductions in vehicle operating costs; (d) enhanced access to jobs, markets, health facilities schools, and other services at lower cost than otherwise available (reflected in enhanced land values); and (e) promotion of economic growth in the region through enhanced trade, increased efficiency, and higher productivity. The table below provides a summary of the EIRR for urban roads under various WB-financed projects. These show that investments in urban roads and associated infrastructure generally generate returns well above their costs.

Benefits of improving road networks (USD millions)

Project	EIRR (%)
Ethiopia Urban Institutional and Infrastructure Development Program	19.3
Tanzania Dar es Salaam Metropolitan Development Project	32.3
Uganda Support to Municipal Infrastructure Development Program	27.5–33.0
Cameroon Inclusive and Resilient Cities Development Project	18.0–30.0

- 47. Benefits of investments in street lighting.** Benefits of street lighting include: (a) increased perception of safety, (b) reduced accidents, and (c) increased ability to do business after dark. The table below presents the results of the EIRR for investments in street lighting under a WB-financed urban development program in Uganda.

Benefits of street lighting (USD millions)

Project	EIRR (%)
Uganda Support to Municipal Infrastructure Development Program	27.0

- 48. Benefits of investments in drainage systems.** Benefits of investments in drainage systems include (a) reductions in number of days of work lost due to flooding, (b) reductions in property damage (buildings, roads, furniture, appliances, household goods); (c) increases in property values; (d) reduced loss of income from businesses whose hours would otherwise be curtailed and access reduced; (e) improved travel times on streets that used to flood; (f) lower maintenance costs for vehicles; and (g) reduced costs of illness associated with exposure to polluted and stagnant water. Well-constructed and maintained storm water drains also reduce costs of maintaining roads and lengthen their useful life. The table below presents the EIRRs for investments in stormwater drainage systems under various WB-financed operations.

Benefits of stormwater drainage systems

Project	EIRR (%)
Kenya Municipal Program	32.0
Tanzania Dar es Salaam Metropolitan Development Project	15.3
Uganda Local Government Management and Service Delivery Program	10.6

Cameroon Inclusive and Resilient Cities Development Project	7.3–15.4
Senegal Stormwater Management and Climate Change Adaptation Project	16–43

Cost effectiveness

49. **Roads.** Unit costs per kilometer of urban roads are available for infrastructure constructed in disadvantaged neighborhoods under Sub-Program 2. These averaged USD117,832 per kilometer, well below the average for African countries, according to a study undertaken in 2014 by the African Development Bank on costs of road construction in Africa (see table below). However, the costs of constructing roads under the UDLGP was about 30 percent higher than the national average, probably due to the small size of the projects and the challenges of constructing roads in dense urban settlements.

Unit costs of road construction and maintenance in Africa, 2008

Type	Unit	Lower quartile	Median quartile	Upper quartile
Construction and upgrading of paved roads less than 100 kilometers	USD/lane/kilometer	USD166,300	USD227,800	USD425,400

Source: African Development Bank, 2014. “Study on Road Infrastructure Costs: Analysis of Unit Costs and Cost Overruns of Road Infrastructure Projects in Africa.” Statistics Department, May. Available at https://www.icafrica.org/fileadmin/documents/Knowledge/AFDB/AfDB_Brief_Road_Costs.pdf.

50. **Street lights and drainage systems.** The costs of street lights vary significantly, depending on the type and height of the pole, the type and number of light fixtures per pole, and whether wiring is overhead or underground. Similarly, the costs of drainage systems vary depending on depth and width, whether covered or open, the type of soil, the gradient of the terrain, and other factors. Thus, there are no data similar to that for roads on the average unit costs of street lights and a kilometer of a drainage system in countries in Africa. Assessing the cost-effectiveness of the investments in these areas under the UDLGP is therefore not possible given available data.

Non-quantified benefits of urban infrastructure

51. **Roads.** Newly paved roads allow users to more cheaply access jobs, markets, health facilities, schools, and other services. Such access to opportunities is more likely to benefit the poor than saving time traveling. Moreover, many of the newly paved roads financed under the UDLGP are opening new areas of the municipalities to housing and development.⁵⁴

⁵⁴ See Robert Cervero for the value of shifting the framing of the objective of new roads as making cities more accessible versus more mobile by prompting a paradigmatic shift in planning, elevating land-use management and information technologies as tools for managing traffic flows and mitigating traffic congestion. Cervero, Robert. 2011. “Beyond Travel Time Savings.” Transport Research Support, World Bank, Washington, DC.

52. **Sidewalks and related non-motorized transport facilities.** Sidewalks provide significant benefits. These include: (a) reductions in fatal or serious injuries due to vehicle-pedestrian accidents; (b) time savings for pedestrians, who can now walk on smooth pathways without interference from trucks, buses, vans, and cars, and (c) time-savings for motorists, who no longer must share the road with pedestrians. Such benefits are in addition to those calculated for roads. A cost-benefit analysis for sidewalks and related facilities constructed in Mombasa, Kenya, under the Bank-financed Kenya Municipal Program was carried out by an economist at the Madawalabu University in Bale Robe, Ethiopia and published in the European Academic Research Journal.⁵⁵ This found that overall the investment in the facilities was economically viable, with a benefit cost ratio of 8.41 in the first five years of operation.
53. **Institutional benefits.** The UDLGP provides capacity building support and incentives for participating LGs to improve participatory investment planning; financial management and own-source revenue generation; procurement, environmental and social management, and contract management; and asset management and operations and maintenance. It also supports central institutions that support LGs effectively exercise their mandates, thus strengthening decentralization, participatory governance, and transparency of local governments in Tunisia. Compared with the start of the Program, LG performance in the areas of governance, sustainability, and management has improved significantly, as shown in the scores of the annual PA. The UDLGP will continue to strengthen core urban governance and management functions in the participating LGs. The improved performance will affect the use of all funds available to LGs for urban development, not just those available under the UDLGP.
54. **Rationale for public sector financing of urban infrastructure and institutional strengthening.** The investments supported under the Program are core urban public goods and services, including roads, sidewalks, drainage, public parks and recreational facilities, and social and economic infrastructure. These would not be provided without significant public support. Under Sub-Program 3, improvements in urban governance are likely to lead to higher citizen participation in decision-making and in turn to greater citizen satisfaction with LG. This is expected to result in higher own-source revenue generation, increasing resources for additional investments in infrastructure and services. In addition, improvements in the quality and transparency of LG fiduciary, planning, and investment processes should help attract private sector participation or financing for future investments.

Program Expenditure Framework

55. **The estimated Program expenditure framework is presented below for 2016 to 2023 (parent Program plus additional financing).** This framework is developed based on the following principles:
- 56.
- **Alignment with Government priorities:** The activities included in the expenditure framework are aligned with the decentralization agenda which has been set in the new Constitution as a core priority. However, this requires transformational changes to the operating framework of the LGs, and the Program is designed to support key reforms

⁵⁵ Mohapatra, Dipti Ranjan, 2014. "An Economic of Feasibility of Non-Motorized Transport Facilities in Mombasa Town, Kenya." European Academic Research, Volume II, Issue 8, November, 2014. Available at www.euacademic.org.

necessary for the restructuring of the institutional and fiscal framework so as to more effectively address the decentralization provisions contained in the Constitution.

- **Sustainability:** The sustainability of the expenditure framework is ensured by the existence of several tools. First, at the national level, the Medium-Term Expenditure Framework (MTEF) developed by MDICI. The current MTEF covers the period from 2016 to 2020. Second, at the program level, the five-year investment plans for each LG validated through a participatory planning approach aiming to justify the investment priorities in a sustainable manner. Third, at the sub national level, the existence of several instruments to finance the LGs investment plans such as: (i) the CSPCL which provides investment loans; (ii) LGs contributions; and (iii) the capital grant from the central Government. Among these instruments, the ability of the LGs to improve the mobilization of their own revenues remains the most critical one to ensure the sustainability of the Program. The Program includes activities aiming to improve the implementation capacity of the LGs.
- **Budget structure:** The Program's budget structure is clear in terms of sources of funding, budgetary vehicles and categories of expenditures. The Program expenditure is included in the General Budget of the State and split under three main categories: (i) Unconditional Capital Grants, (ii) Conditional Capital Grants, and (iii) Capacity Building and Technical Support. All expenses are programmed in line with the State budget classification. A significant share of the Program expenditures finances LGs' infrastructures. This requires the existence of an adequate programming/multiyear planning, and execution capacity at the LGs level. However, under the ongoing program, the LGs' overall performance was mixed with some persistent issues on the implementation of the annual investment plan. The additional financing will continue to pursue the ongoing effort to improve the project management capacity of the LGs through the technical assistance planned under SP 3.
- **Program expenditures in the table below are constituted over the parent Program and projected years of the additional financing (FY 2016 to FY 2023).** As shown in the table below, total Program expenditures would add up to USD 493 million over the Program implementation period. The Program expenditure framework was defined at the level of each responsible entity to ensure clarity and transparency in terms of implementation arrangements, and reflect the restructuring of SP 3.
- **Under the additional financing, SP 3 will:** (i) extend ongoing capacity building and technical assistance support activities to LGs and (ii) deepen government reforms in three critical areas: financial management, human resource management, and accountability systems. The capacity building support activities implemented under the original Program will be slightly modified to increase technical soundness and implementation pace. The Program will also support strengthening the decentralization process through funding the establishment of seven regional commissions. The Program expenditure framework will fund activities implemented by the Court of Accounts aimed at strengthening LG financial management and supporting the implementation of a risk-based audit approach. The expenditure framework will also include activities linked to the Government's civil service reform strategy aimed at encouraging staffing mobility and redeployment to LGs through the: (i) introduction of a financial incentive for staff; and (ii) implementation an online job

market for civil servants. Complementary activities related to deployment of HRM tools in LGs and training programs for redeployed staff will also be provided funding through the Program. Funding will also be provided to strengthen GRM in LGs through: (i) supporting development of GRM protocol; (ii) training for municipalities to strengthen GRM; and (iii) testing technological solutions to improve GRM. The Program will continue to fund financial oversight and audit mission performed by the Court of Accounts as well as expenses related to performance assessment verification activities and missions conducted by the CGSP. Table below shows an estimation of the breakdown by sub-programs.

- **Predictability:** Per the 2016 PEFA, the predictability of the Government's expenditures is robust with the release of the budget's appropriations to the budget holders within an adequate timeframe. However, the sub national PEFA's completed for a sample of LGs highlighted some issues in the predictability of the funds transferred to the LGs which may affect the execution of the Program. Under the ongoing Program the budgets are made available with a slight delay of 3 months after the start of the fiscal year because of various mandatory controls (review by the CSPCL, compliance with the MMC). To prevent any negative effect on the implementation of their budget, the LGs will be advised to initiate the procurement process while waiting for the budget release.
- **Effectiveness:** The following measures are contributing to ensure effectiveness of the ongoing Program, they will be enhanced or scaled up in the additional financing: (i) the monitoring of the PA and the MMC, (ii) the transparency and accountability mechanisms included the improvement of the LG's financial statements, and the publication of the LGs' audit reports prepared by the CoA (DLI 8), (iii) the ongoing revision of the matching grant mechanism to introduce a tranche release mechanism as to improve monitoring, and (iv) the technical assistance to the LGs for a greater execution of the infrastructure financed by the Program.

DETAILED INDICATIVE EXPENDITURE FRAMEWORK 2016-2023 (in million USD)										
	Entity	Activity	2016	2017	2018	2019	2020	2021	2022	TOTAL
Sub-Program 1	CPSCL	Formula-based capital block grant allocation to LGs	25.2	25.2	34	52.5	52.5	52.5	52.5	294
Sub-Program 2	CPSCL	Grant allocation to LGs for specified investments in line with national priorities	63.0	18.3	25.8	0.0	10.1	9.7	9.7	137
Sub-Program 3	Multiple	Capacity-building and	0.39	0.48	2.75	3.00	4.85	4.41	3.74	20

		technical support								
Sub-Program 3.1: Demand-based capacity support provided to LGs	CFAD	Delivery of Trainings	0.28	0.37	0.37	0.37	0.46	0.42	0.42	3
	CPSCl	Technical assistance	0.09	0.01	1.89	1.47	0.84	0.84	0.84	6
	IPAPD	Decentralization support; establishing regional commission	0.00	0.00	0.00	0.63	0.42	0.42	0.00	1
Sub-Program 3.2: Support to Ministries, Departments and Agencies involved in the implementation of ongoing and new Program activities	MALE	Human resources management activities	0.00	0.00	0.00	0.25	2.75	2.25	2.16	7
	MALE	Grievance redress mechanism activities	0.00	0.00	0.00	0.04	0.10	0.21	0.04	0.35
	CPSCl	Implementation and communication support	0.01	0.00	0.33	0.03	0.02	0.02	0.02	0.43
	CDC	Travel expenses and support to risk based audit	0.0	0.1	0.1	0.1	0.2	0.2	0.2	1
	CGSP	Travel expenses	0.00	0.02	0.04	0.06	0.05	0.05	0.05	0.27
	AVI		0.00	0.00	0.00	0.02	0.04	0.04	0.04	0.14
	ANPE	EIA Decree	0.00	0.00	0.03	0.00	0.00	0.00	0.00	0.03
Program support fund		Funding that can be reallocated in line with implementation progress	5	5	5	5	1.01	1.01	1.01	23
Total			94	50	71	63	73	72	70	493

* Tunisian Dinar funding will fluctuate according to exchange rates. For the expenditure framework of the Program, the exchange rate used is (i) TND1=0.63USD for 2016-2019 with the exception of 2018 and 2019 where the year's exchange rate was used given large variation for Sub-Program 1, and (ii) TND1=0.42USD for 2020-2022. This expenditure framework is indicative and the expenses may change according to needs and the achievement of planned results under the Program.

ANNEX 5: FIDUCIARY SYSTEMS ASSESSMENT – ADDENDUM

1. **The fiduciary risk is substantial.** The risk is substantial, for the reasons outlined below. That said, the fiduciary arrangements that have been put in place for the parent Program will remain in place as they remain relevant and have been deemed adequate. However, some additional measures highlighted in the various World Bank supervision reports and the CoA audit reports will be implemented to improve the fiduciary performance of the Program and to mitigate the identified risks.⁵⁶ These mainly relate to the need to improve (i) the reliability and the timely preparation of the LGs' financial statements and (ii) the quality of the external audit. To this end, the DLI Matrix has been revised to adjust DLI 8 on transparency in two main ways. First, the CoA will target cumulatively 100% of LGs audited by 2019 (i.e. in 5 years' time since the start of the Program). Second, the CoA will: (i) maintain 100% of LGs audited each year using customized auditing standards (which are based on risk); as well as (ii) follow up on implementation of audit recommendations. This will help to focus the audit on the critical risks that could affect the Program to achieve its results. This will be done by (i) the enforcement of appropriate auditing standards with regard to context (small level of transactions at the LG level), (ii) the development of a risk map, and (iii) the monitoring of the recommendations formulated by the audit reports. Likewise, the Program Action Plan has been amended to also reflect efforts to improve LG financial management. This will be complemented by technical assistance to government-led steering committees, the CoA, and LGs, financed through trust funds, to develop and implement accounting and auditing standards for local governments consistent with international norms. The process for introducing new standards will take several years; the WB will support improved reporting in the interim, through the introduction of a standard financial reporting format for local governments.
2. **The expenditure cycle for the additional financing will follow the same procedures applicable for the parent Program.** More specifically, the budget allocations once approved for capital grants will be transferred from the Treasury Current Account at the Central Bank of Tunisia (BCT) to CPSCL as part of existing state budget implementation procedures. CPSCL will in turn transfer the grant funds to LGs in accordance with the operating rules for the Capital Block Grants and Conditional grants. The ex-ante and ex post controls will be respectively carried out by the General Expenditure Control Unit (*Contrôle Général des Dépenses*) and the Court of Accounts (*Cour des Comptes*). The new Local Government Law (adopted in April 2016) has lifted the ex-ante controls on LGs. Lastly, the transparency and accountability measures developed under the parent Program will remain, such as the use of the e-portal, and the preparation/validation of annual investment plan with the citizens.
3. **Regarding procurement, the assessment carried out under the parent Program continues to be valid.**⁵⁷ Several aspects of the institutional systems for public procurement continue to be helpful to the Program. The CPSCL will maintain an up-to-date list of contractors debarred by

⁵⁶ The program financial oversight was successfully performed by the Court of Accounts (*Cour des Comptes*) which has managed to audit both the consolidated program financial statements and so far about 70% of the qualifying LGs' financial statements. It is expected that this percentage will increase to 80% in 2018.

⁵⁷ The initial assessment was based on the decree #1039 governing public procurement that was enacted in March 2014 and went into effect in June 2014.

the Bank and convey such information to all municipalities. In addition to the list of firms debarred, the Bank has a list of “suspended firms” not eligible to be awarded contracts, which is not public. The Bank will ensure that this list is shared with all entities involved in procurement in the program. Regarding filing complaints relating to procurement, they can be filed with the Procurement Monitoring Committee. As part of the existing system, all contracts awarded by municipalities must be displayed on their website as well as on the national procurement portal hosted by the *Observatoire des Marches publics*. Any aggrieved party will have the opportunity to file a complaint within a period of five days after the contract awards are posted in the website. In addition, the government order approving the manual of procedures for low value procurements via TUNEPS (electronic procurement system) went into effect on March 1, 2017 and allows public procuring agencies, including Local Governments (LG), to procure (1) works, (2) goods and IT services and (3) consulting services up to TND 200, 000; TND 100,000 and TND 50,000 respectively.

4. **While the additional financing does not call for major additional procurement arrangements, LGs will be supported through a technical assistance to better leverage TUNEPS.** Public procurement in Tunisia suffers from chronic delays at various stages of the procurement process, and low participation by suppliers/contractors in public procurement proceedings. The operationalization of the online e-procurement system “TUNEPS” was meant to resolve some of these outstanding issues through easing access to public procurement markets to MSME suppliers/contractors in lagging regions. However, many public entities continue to use paper-based methods limiting access of MSMEs to public procurement markets (contract award to MSMEs is well below the 20 percent mandated by decree no. 2014-1039).
5. **A new action in the PAP, financed by a grant, will focus on capacity building for LGs on how to use TUNEPS in line with an adopted decree that mandates the use of TUNEPS in LGs from September 1, 2019.** To that effect, the procurement regulatory agency (HAICOP), in partnership with CPSCL and CFAD, could implement the necessary technical assistance during the program period. It is expected that this decree will be pivotal in actualizing the potential of TUNEPS in terms of efficient budget execution and implementation of the government investment program, increased access to opportunities of public contract for companies and particularly SMEs, and improved transparency, integrity and accountability. Additionally, it is also expected that the enhancement of the procurement indicator in the performance assessment towards more result orientation will also help incentivize LGs to reduce transaction costs in procurement proceedings.
6. **Moreover, the revised Performance Assessment (PA) system for allocation of unconditional grants (Sub-Program 1) is being finalized with Government stakeholders and is expected to strengthen indicators related to financial management and transparency of LG investment planning.** The performance-based block grant allocation formula is based on LG population (2/3 of the weight), fiscal potential, and the Local Development Index score (national index).
7. **The existing institutions⁵⁸ for addressing fraud and corruption risks remain adequate.** Tunisia has promulgated in March 2017 a law on the protection of whistleblowers. The adoption

⁵⁸ State Secretariat for Public Governance, National Authority for Fighting Corruption, Public Procurement Oversight Committee, Procurement Monitoring Committee, Court of Accounts

of the law is an important step in the fight against corruption and conflicts of interest. The law sets out the conditions and procedures for denouncing corruption and protecting whistleblowers, as well as the necessary penalties envisaged against any person who proposes to reveal the identity of a whistleblower. This is complemented by processes (governed by the National Strategy on Anticorruption) and other operational tools such as the Anticorruption hot-line created by the National Anticorruption High Authority (INLUCC) for reporting fraud and corruption cases and a website where any citizen can file complaints/grievances. Each LG has established a Citizens Relations Bureau where a citizen can file a grievance on any issue relating to the municipality. The Program is supporting the strengthening of the overall grievance redress system through a combination of a performance indicator included in the PA, and capacity building including the provision of facilitating technology supported under the PAP. In addition, the Program is supporting the implementation of an E-Portal where all relevant information (both financial, procurement and operational) relating to the implementation of the projects will be displayed for public information.

ANNEX 6: ENVIRONMENTAL AND SOCIAL SYSTEMS ASSESSMENT - ADDENDUM

Summary

Introduction

1. In the context of preparing an additional financing (AF) for the Urban Development and Local Governance Program for Results (UDLGP PforR), the World Bank (WB) has prepared an Addendum document in collaboration with the Government of Tunisia in order to: i) update the Environment and Social Systems Assessment (ESSA) produced during the preparation of UDLGP following changes made to the national environmental and social (E&S) evaluation system; ii) examine the state of E&S management of sub-projects under UDLGP to date; iii) identify any shortcomings in respect of the ESSA's conclusions and action plan; and iv) suggest measures to be integrated into the Addendum's action plan to improve E&S management in accordance with World Bank policy on Program-for-Results financing. The following annex offers a summary of the full ESSA Addendum which can be found on the WB and Government websites.
2. The goal of this review and the production of the Addendum is to ensure that there are no significant E&S risks associated with the AF, and that Program systems allow for identification and appropriate mitigation of any risks associated with activities financed under the Program.

Anticipated E&S Effects of Additional Financing

3. The Program sub-projects financed through the AF will be of the same type, of similar magnitude, and located in the same urban areas as those financed under the parent loan. Their anticipated E&S impacts are estimated to be small or moderate.
4. In the Program restructuring that accompanies the AF, the following are new activities that will be financed under the Program: i) new measures concerning human resource management (HRM) under Sub-Program 3) to facilitate staff mobility in order to provide local governments (LGs) with required skills and human resources; and ii) investments to promote socio-economic development (e.g. markets and youth centers) in addition to investments to increase access to basic infrastructure (Sub-Program 2).
5. These new activities may introduce new E&S risks. However, their magnitude is considered small to moderate, considering that:
 - There exists a legal and regulatory framework for staff mobility, guaranteeing their acquired rights (Law Number 83-112 on the co-statute of civil servants); and
 - Socioeconomic projects which have greater need for land will not be eligible for financing except in cases where land belonging to LGs is available.
6. The sub-projects will be determined and examined on a case-by-case basis in consultation with the actors and sectors involved to ensure that possible impacts are small to moderate, will not prejudice the sustainability of sub-projects, and are compatible with the principles and objectives of World Bank Policy on PforR Financing.

Updating E&S Systems

National Environmental Management System

7. The national Environmental Impact Assessment (EIA) system is in the last phase of review. Review of the EIA decree, carried out by the National Agency for the Protection of the Environment (ANPE) and supported by the World Bank as part of UDLGP PforR, is in its final phase. The new text is expected to come into effect at the end of 2018 or early 2019. Significant changes will be made to the EIA system and will address most of the current shortcomings, especially regarding selection, E&S assessment tools, analysis of social impacts, information provided to the public, consultation with the public, and environmental monitoring. It's implementation will require actions designed to strengthen the capacities of the systems' main actors. The Addendum's Action Plan includes support for ANPE in this area.

Environmental Procedures Applied to UDLGP/AF Sub-Projects

8. Once the revised EIA decree comes into effect, a review of the Program Operational Manual will be necessary because some UDLGP sub-projects will be subject to the new arrangements introduced into national legislation.

National Social Management System

9. Since the approval of UDLGP, one major change has been introduced to the national land acquisition framework: the adoption of a new Law No. 2016-53 repealing the 2003 law relative to expropriation for public use. Promulgation of this law was motivated by the limited effectiveness of prior texts in practice, particularly in terms of processing speed and the timeframe involved when taking possession of expropriated properties. The new provisions maintain the principle that expropriation is an exceptional measure only⁵⁹ and fair compensation to rights holders is always guaranteed by law.
10. In addition, the law concerning the urban planning code introduces consultation with owners of properties located within the perimeter of municipal and inter-municipal urban development projects. Therefore, not only will LGs have to pay close attention to the consultation process required by the ESM, but they will also be legally obligated to do so after the new law is enacted.

Implementation of Initial ESSA Action Plan

11. The UDLGP ESSA action plan focused on: i) strengthening the E&S management system; ii) strengthening implementation and monitoring of the E&S management system; and iii) strengthening capacities of E&S management.

⁵⁹ In the event that the target of expropriation has not accepted the expropriator's offer or has not been informed of the expropriator's offer, or if there is litigation over the merits of the rights or qualifications of the claimants.

12. The majority of actions planned have been carried out in full or in part, notably preparation of the ESM, designation of focal points, administration of LG training, and revision of the EIA decree (planned for the Program's second year and currently in its final phase). Some actions started late, such as the training for LG focal points, technical assistance (TA) to the CPSCL and LGs, and the publication of the Environmental and Social Management Plan (ESMP).

E&S Management of UDLGP Sub-Projects (2015–2017)

13. Although the actions in the initial ESSA action plan made it possible to strengthen the capacities of the various stakeholders in E&S management, additional actions are needed in view of the results obtained at the level of ESM implementation of sub-projects. The following sections review the actions carried out and the areas for future support identified from an analysis of available documents and interviews with CPSCL and select LG focal points.

Application of ESM Procedures

14. Training sessions for LGs organized by the Government of Tunisia's LG training agency CFAD starting in 2016, and agreed efforts by CPSCL and its regional offices to assist LG focal points, have made a major contribution to improving ESM application in 2017.
15. According to the available documents consulted, based on information provided by CPSCL and the municipalities interviewed, LGs completed selection forms systematically, prepared ESMPs for category B sub-projects, organized public consultation meetings, and sent their bi-annual environmental monitoring reports to CPSCL. The overall finding is positive in terms of formal respect for E&S procedures, but it also reveals problems in terms of E&S management of sub-projects. According to an analysis of monitoring statements and interviews carried out with CPSCL and LG focal points, understanding and E&S management of sub-projects should be improved, especially concerning: i) the quality and content of E&S assessment documents, including selection forms, Terms of Reference (TORs), and ESMPs; ii) the timely communication of documents to CPSCL for information and publication prior to the financing agreement for sub-projects, particularly those of Sub-Program 1; iii) monitoring of ESMP implementation and land acquisition, which are often poorly documented; and iv) preparation by CPSCL of bi-annual reports summarizing and verifying quarterly monitoring reports by LGs.

Preparation and Publication of ESMPs

16. Documents provided by the CPSCL provide a relatively complete picture of ESMP progress for Sub-Program 2 sub-projects but not Sub-Program 1 sub-projects because of the unconditional nature of Sub-Program 1 financing and the corresponding lighter reporting requirements. Of the 130 Sub-Program 2 sub-projects (2016-2017), 59 have been classified under category B (45%) and have been the subject of ESMPs, of which 51 are published on the CPSCL's website, or approximately 39% of all of these sub-projects. LGs systematically send their Sub-Program 2 selection forms and ESMPs to the CPSCL before receiving a financing agreement, which enables the CPSCL to correct its selection in the event of anomalies. This procedure applies for investments financed under the Sub-Program 1

unconditional performance-based capital grants for sub-projects funded by CPSCL loans but typically not otherwise given LGs do not need to submit documentation for ex ante approval for investments from the CPSCL. This limits the opportunities to review E&S compliance for Sub-Program 1 financed projects including for the timely correction of potential errors and inconsistencies in E&S assessment. For example, it was noted that: i) for some LGs, no sub-project in the 2017 Annual Investment Program (Programme annuel d'investissement, PAI) had an ESMP; and ii) some relatively large sub-projects (costing TND 1–3 million) have been classified as Category C. Although this situation seems a priori inappropriate, it could prove to be correct and compliant with ESM. Yet, in the absence of explanatory and justifying documentation, it is at present difficult to make a firm decision, especially since it is sometimes reported that selection forms are not available at the level of CPSCL.

17. LGs interviewed also pointed out difficulties concerning:

- Preparation of selection forms: Some criteria appear ambiguous, hard to define, and in need of greater detail. It should be noted that this form was revised in 2017. It could be reviewed again and further improved if necessary. Additional training to LGs is also necessary; and
- Public consultation: Some invited public and local representatives have reported not finding consultations useful. Additional training and awareness actions will be required to help LG focal points confront and manage these kinds of problems effectively.

18. Concerning Sub-Program 1, there are approximately 328 sub-projects (highway maintenance, street lighting, etc.) subject to ESM procedures, with only 19 published ESMPs, or approximately 6% of the total number of sub-projects. This rate is relatively small compared to Sub-Program 2, for the aforementioned reasons, but remains quite similar to the data in the 2017 monitoring reports prepared by CPSCL regional offices.

19. The 70 published ESMPs were subject to public consultation (checked by CPSCL before publication), but did not address social aspects concerning vulnerable people, who should have been included in the population affected by the project, with measures to meet their specific needs.

20. To compensate for the shortcomings described above, it is recommended that: i) the E&S system for information exchange be improved; ii) a step for reviewing and verifying ESMPs by the CPSCL be introduced; and iii) the E&S measures indicator⁶⁰ be reviewed.

Land Monitoring

21. CPSCL and LG focal points interviewed made it clear that: (i) the ESMPs addressed land ownership aspects; (ii) land acquisition was minimal and settled amicably; (iii) cessions were mainly voluntary; and (iv) monitoring results were included in quarterly reports.

22. It was observed that in some cases, a small number of land ownership problems were only discovered during construction phases, although these problems were settled amicably without legal action (Reports by the Nabeul and Sousse Regional Offices, October 2017). In order for

⁶⁰ Indicator 10.1 for assessing LG performance in terms of E&S aspects (in 2017 report, CGSP recommended that the significance and relevance of this indicator be made clearer).

LGs to apply land acquisition procedures more rigorously, land ownership problems should be identified during the sub-project preparation phase, well documented, and settled before work starts. Monitoring reports should include greater detail and supporting evidence on these operations (identity of rights holders, land titles, area to be acquired, nature, amount, and legal documentation of indemnification and compensation, etc.). To facilitate this, it is recommended that ongoing TA to LGs should concentrate more particularly on this aspect, complemented by specific training on land ownership issues.

ESMP Implementation Monitoring

23. The reports of monitoring missions carried out by the regional offices of Sousse and Nabeul during ESMP implementation confirm that ESM procedures were respected during the sub-project preparation phase but also point out inadequacies in ESMP implementation (lack of documentation supporting implementation or effectiveness of mitigation measures, non-establishment of amicable land acquisition, grievances sometimes remaining unanswered; non-appointment of the company's ESMP supervisor, etc.).
24. Some LGs mentioned inadequate municipal budgets for financing mitigation measures, especially during the implementation phase, which could seriously affect a sub-project's sustainability. In this regard, the ESM makes it clear that ESMP-planned mitigation measures must be integrated into the cost of the sub-project and budgeted. It is recommended that the CPSCl and CFAD organize specific training on budgetary aspects of E&S management.

Grievance Management

25. The five municipalities interviewed confirmed that they had appointed a focal point, handled grievances, and responded within appropriate deadlines. However, according to the 2017 General Audit of Public Services (Contrôle Général des Services Publics, CGSP) report, not all LGs complied with these measures. The report's results on LG performance assessment in terms of grievance management show that out of 264 LGs: i) 254 appointed an E&S focal point; ii) 237 set up an updated grievance register; and iii) 165 dealt with grievances within the required timeframe.⁶¹

E&S Monitoring Reports

26. LG Quarterly Reports: A model format for monitoring reports was established by CPSCl and used by LGs. It covers the main aspects of E&S (e.g. preparation and monitoring of ESMPs). LGs sent in their quarterly monitoring reports to the CPSCl for the 2016 financial year. This was confirmed in the 2017 CGSP report. In 2017, CPSCl regional offices mentioned a few instances in which these reports were not available.
27. Although it can be concluded that the majority of LGs complied with this ESM measure, it should be noted that the reports remain inadequately explained, documented, or substantiated. In view of the content of some quarterly reports, it seems that LGs find them difficult to

⁶¹ These figures concern LGs receiving the maximum score by topic; see Illustration II-14 of the Performance Assessment Report (CGSP) 2017.

prepare. This is sometimes attributed to workload, but the problem resides particularly in understanding and applying what is required and the regularity of monitoring operations. TA⁶² in terms of training and assistance to LGs should help them correct these inadequacies.

28. *CPSCCL Six-Monthly Reports*: CPSCCL should prepare a monitoring report every six months summarizing and verifying LG quarterly reports. This ESM measure should allow the CPSCCL to: i) identify and correct potential anomalies; and ii) prepare an annual monitoring report to be integrated into the annual Program progress report. Unfortunately, this has so far not been carried out, notably because of delays in procurement of TA contracts. CPSCCL plans to produce the first annual monitoring report in 2018.

Consultation

29. A stakeholder information and consultation workshop on the draft ESSA Addendum was jointly organized by the World Bank and the CPSCCL and held in Tunis, at CFAD headquarters, on 5 April 2018. Prior to that, several consultation meetings were held during the elaboration of the ESSA Addendum with smaller groups of stakeholders.
30. The CPSCCL invited around 100 representatives of the various public bodies and administrations concerned, and NGOs and other stakeholder representatives, and informed them of the availability of the consultation document on its website (a full list of the attendees is attached to Annex 7 of the separate ESSA Addendum). The workshop consisted of a presentation of the AF and the ESSA Addendum and its recommendations, and a session for discussion, clarifications, and suggestions. The representatives of the LGs reported on the difficulties encountered due to the lack of resources and the heavy workload required. Most stakeholders stressed the need to further strengthen the capacities of the various actors and to mobilize more technical assistance.

Conclusions and Recommendations

31. At present, no significant changes have been made or proposed to Program environmental systems. AF environmental and social impacts remain of a similar type and level as those under the Program financed by the parent loan.
32. CFAD and CPSCCL have trained all focal points on ESM and manuals. The CPSCCL-administered LG TA has experienced significant start-up delays but has recently commenced.
33. Efforts agreed to by the various stakeholders have led to clear improvement in E&S management compared to 2016. Most ESM procedures were respected by LGs, but problems and inadequacies remain in terms of the quality and comprehensiveness of documents produced (selection forms, ESMPs, land ownership monitoring, public consultation, environmental monitoring reports, etc.), information exchange and management, and implementation of mitigation and compensation measures for E&S impacts.

⁶² The framework agreement on TA to LGs, which was signed recently between CPSCCL and SEETE consultants, is currently operational. It is intended to support LGs in applying E&S measures.

34. Additional measures are required to address these problems, especially in terms of strengthening capacities, training, and TA, as recorded in the Addendum Action Plan.

Measures Integrated in the Addendum Action Plan

Assessment of E&S Management

- Recruitment of a consultant to examine and verify bi-annual monitoring reports, including review of land in a sample of sub-projects, and preparation of a report summarizing all E&S monitoring activities for the first three years of UDLGP (2015–2017), their compliance with E&S measures, and recommendations to compensate for inadequacies.

Improvements to E&S Management

- Optimization of information and monitoring system
 - Review the information and document transmission channel between CPSCCL, including its regional offices, LGs, and the Urban Rehabilitation and Renovation Agency (ARRU);
 - Define information flow for E&S monitoring (nature, form, and frequency of information);
 - Standardize presentation format and promote the use of computerized tools to improve speed of processing and accessibility of information;
- Strengthening E&S management capacities
 - Informing and awareness raising of key LG supervisors;
 - Training of newly appointed focal points on ESM;
 - Additional training of LGs, focused on inadequacies encountered;
 - Adaptation of consultant services profile to UDLGP specifications;
- Strengthening implementation and monitoring activities of E&S measures
 - Refine and adapt ESMP ToRs to the specifics of each sub-project, including identifying populations affected (especially vulnerable groups) and discussing sub-project impacts on them;
 - Ratification of each stage of E&S assessment by the CPSCCL;
 - Routine set-up of an updated overall progress report on E&S management activities;
 - Implementation of TA to the CPSCCL for bi-annual summary and verification of LG quarterly monitoring reports;
 - ANPE involvement in supporting the CPSCCL and LGs in ESMP assessment and monitoring.
- Compensate for the shortage in human resources in some LGs by making use of staff mobility;
- Implement effective ANPE involvement to provide formal support to LGs (e.g., agreement between CPSCCL and ANPE), defining the extent and manner of its interventions.

Strengthening National EIA System

- Strengthening ANPE capacities, especially with respect to the new terms of the decree on the Environmental Impact Assessment (EIA) system (social impacts, public consultation, disclosure of information, etc.).
- Support for the development of specific tools for assessment and monitoring of the EIA system.

Further Action

- Updating the Program Operational Manual once the revision project of the EIA decree has come into effect (expected in early 2019).

ESSA Action Plan

Action	Description	Timeframe	Cost	Financing	Manager
Recruitment of a consultant for <i>ex post</i> review	An assessment of UDLGP E&S management for the past three years will be commissioned to identify all non-compliance cases and appropriate measures to remedy the situation and prevent its future recurrence.	2018	TBD	TF	World Bank
Optimization of current information system of the CPSCL	<ul style="list-style-type: none"> Examine the information channel linking CPSCL to its regional offices and the municipalities; Analyze information flow for monitoring projects in terms of Environmental and Social Assessment (nature of the information, frequency, source, etc.) Standardize presentation format and use email and the CPSCL website to publish usable summaries at frequent intervals. 	Beginning of 2019	–	–	CPSCL
Raising awareness among elected officials of mandatory aspects of requirements stated in the manuals	Managerial staff supervising projects and E&S focal points must obtain authorization from LG authorities for actions required in the manual. These authorities should be made aware of ESM characteristics so that elected officials will not deny authorization.	2018	–	–	CPSCL CFAD
Training of LG focal points	New focal points will be appointed following the creation of new municipalities or as replacements for reassigned focal points. They will be given training on applying ESM. In view of the inadequacies reported, targeted training of LGs is essential to deal with public consultation, land acquisition, monitoring and reporting, and budgeting of ESMP E&S measures.	2018		UDLGP	CPSCL CFAD
Adapting consultant services profile to UDLGP specifications	Calls for tender are sometimes unsuccessful because consultant services are not familiar with ESA systems. Providing information on the WB reference framework on E&S matters will increase participation. (Information meeting or half-day organized once a year by CPSCL at central or regional level).	Annual			CPSCL
Translation of manuals into Arabic	Preparation of the Arabic version of the guides on land acquisition, public consultation and complaints management	By mid-2018	AD	PARC	CPSCL CFAD
Refine TOR drafting	Consultant services or consultants used for socioeconomic studies, evaluation of social and environmental impacts, and ESMP development and monitoring must be guided by more	As per LG requirements		PARC	LGs CPSCL

	<p>specific ToRs in applying the E&S aspects of the Program Operational Manual.</p> <p>Identification of the population affected by projects should include identifying vulnerable categories that may require special treatment (the elderly living alone or without resources, orphans, the disabled, etc.).</p> <p>Planning for highways and other public facilities must respect the principle of universal access for people with disabilities so that they can benefit in the same way as other citizens.</p>				
Review documentation for E&S assessment	<p>Sub-Program 1 sub-projects must be subject to ESM procedures and in compliance with the ESM E&S assessment stages.</p> <p>The selection list, ToRs, and ESMP must be sent to CPSL in a timely manner for information checking and correction of potential anomalies, but in alignment with the principle of LG empowerment in use of its unconditional grant resources.</p>	At the end of stage n and before stage $n+1$			CPSCL
Establish regular review of sub-project compliance with E&S procedures	<p>Once the information system is optimized, the CPSCL should receive a routine overall progress report on implementation of E&S procedures to allow for potential anomalies to be detected and corrected in a timely manner in consultation with its regional offices and LGs.</p>	Quarterly			CPSCL
Start of biannual consultation for six-monthly analysis and summary of E&S monitoring reports	<p>TA to the CPSCL to prepare six-monthly reports on E&S monitoring (summarizing and checking quarterly reports sent by LGs) has not yet begun.</p> <p>This should be initiated as a priority in order to fill the gaps observed in the preparation of monitoring reports.</p>	Annually			CPSCL
ANPE involvement in ESMP assessment and monitoring	<p>This initiative, which aims to support the CPSCL focal points, was planned in the initial ESSA but not carried out and should be implemented.</p>	2018			ANPE CPSCL
Review of E&S management performance indicator	<p>The indicator on E&S measures could offer a better proxy for assessing LG E&S performance.</p> <p>It should be broadened to cover the range of E&S stages, including adherence to ESMP implementation.</p>	2018			LG Performance Assessment Technical Committee

					ee under Inter- Ministeri al Committ ee
Implementation of program for strengthening capacities established as part of the national EIE system upgrade (program to be agreed upon between CPSCL, ANPE, and WB).	<p>The program covers several aspects of human and material resources. Actions that can be financed by UDLGP must be agreed between CPSCL, ANPE, and WB.</p> <p><u>For information purposes, these can address:</u></p> <ul style="list-style-type: none"> • Strengthening, through training and support, ANPE personnel responsible for EIEs, especially concerning selection and classification, assessment of social impact, public consultation, information provided, etc. • Development of tools and specific documents for E&S monitoring and assessment of projects. 	As per schedules of agreed program	TBD	UDLGP	CPSCL ANPE WB
ESM update	Once the revised EIA decree has come into effect (expected toward the end of 2018), ESMs will have to be reviewed since several types of UDLGP sub-projects will have to be submitted for prior approval and monitoring by ANPE.	2019	TBD	UDLGP	CPSCL

ANNEX 7: PROGRAM ACTION PLAN

Original/ Revised/ New/ Dropped?	Action Description	Due Date	Responsible Party	Completion Measurement	Progress/ Rationale
Area 1 – Transparent capital grant system					
All PAP actions under Area 1 were achieved and no new PAP actions will be added under this area					
Area 2 – Municipal performance assessment					
All PAP actions under Area 2 were achieved and two new PAP actions will be added under this area to reflect changes under the AF					
New	Revision and approval of the LG Performance Assessment Manual approved by inter-ministerial council, and new ministerial <i>arrêté</i> (Government Order) has been published in the official Gazette	12/31/2018	MALE / CPSC	Revisions adopted approved and <i>arrêté</i> (Government Order) published	The updated PA system will be implemented in CY2020 and for that to happen it is compulsory that the required <i>arrêté</i> is adopted at least on year before implementation (by December 31, 2018).
New	Develop mechanisms for more systematic Citizen Feedback on Municipal Services and Processes: [1] design system [2] implement survey and publish results [3] repeat survey.	[1] 9/20/2018 [2] 7/20/2019 [3] 12/30/2020	MALE / CPSC	Survey completed and published	Implementing mechanisms for citizen feedback based on random sampling surveys which could be publicly disclosed would improve information availability on service delivery, create greater incentives for improved government responsiveness and service delivery, and potentially increase citizen trust (if the feedback information is acted upon). This, together with strengthened grievance redress systems are important elements in responsible, accountable decentralization

					processes. This would be funded through a separate TA.
Area 3 – Municipal capacity building					
PAP actions #6, 7 and 8 were achieved. PAP action #9 is still in progress. PAP actions #5 and 7 were revised and extended till the new closing date of the Program. Six new actions were introduced to reflect the changes under the AF					
Original	9. Specific training modules on financial management for municipal financial management staff are developed and a nation-wide training program is initiated	12/31/2020	CFAD	Training module developed and nation-wide training program is planned and budgeted for	In progress. As part of the preparation of the tools needed to develop the participatory AIP, the development of a guide on LG financial management process was piloted. A dedicated training module has been developed and 3 training sessions have already been carried out with LGs financial trainers. Yet, following the evaluation of the process of preparation of the AIP, these guides and modules need to be updated.
New	Design and implement training for LGs on the application and use of TUNEPS	Annual starting CY 2019	HAICOP in collaboration with CPSCL and CFAD	Annual training program is financed and executed through a grant	To build the capacity of LGs in anticipation of a government decree mandating the use of TUNEPS for all public procuring entities.
Revised	5. Annual Capacity Development Plans (ACDPs) prepared by all LGs	Program closing date	LGs	None	Extended, every year until the end of the Program, LGs will have to carry out ACDPs
Revised	Establishment of a periodic global status and publication of the ESMPs of all sub-projects (SP1 and SP2), including through (i) launch of a biannual consultation for the analysis and bi-annual summary of the	2018	CPSCL	TA carried out to prepare the biannual E&S monitoring reports to fill the gaps identified	Sub-Program1 sub-projects are subject to the same E&S procedures as those of SP2. The CPSCL should have global and periodic status of the progress of the implementation of E&S

	environmental and social monitoring reports; and (ii) revision of the performance indicator of environmental and social management			in the preparation of monitoring reports.	<p>procedures to detect anomalies and mitigate them in consultation with regional offices and the LGs.</p> <p>The actual performance evaluation can be done during the preparation of the biannual report prepared by the CSPCL with the assistance of a Consultant for the synthesis of the quarterly reports of the LGs and the field verification on the basis of a sample of sub-projects.</p>
New	Organize information and awareness raising seminars regarding the Program for elected officials in LGs	12/31/2018	CFAD	Training administered to new LG elected officials	After the local elections, LGs will be governed by new elected officials who may not be familiar with the Program. This training will offer them an overview of the Program including technical, environmental and social aspects, fiduciary and procurement requirements.
New	Improve E&S capacity in LGs through capacity building support to E&S focal points for: (i) screening, (ii) ESMP preparation for sub-projects, (iii) streamlining of regular reporting on sub-projects compliance with E&S procedures (through TA support to LGs to prepare regular E&S monitoring reports)	UDLGP duration	LGs/CPSCL /CFAD	Trainings and demand-driven TA requests for E&S support are delivered to key stakeholders within the relevant timeframe through the CPSCL	<p>Training should be further enhanced by, but not limited to, revising the timing of the training offering and the targeting of participants.</p> <p>E&S focal points should receive training on E&S manuals: public consultation, land acquisition, monitoring and reporting, and budgeting for E&S.</p> <p>CPSCL needs to be aware of global and periodic status of the</p>

				administered program; CPSCL prepares global and periodic status reports of the progress of the implementation of E&S procedures.	progress of the implementation of E&S procedures, so as to verify and mitigate compliance issues in consultation with regional offices and the LGs.
New	Finalize the definition of the selection criteria and selection process and prepare the call for expression of interest	7/31/2018	SP 2 Technical Committee/ CAP	Call for expressions of interest prepared including the eligibility and selection criteria	Selection of neighborhoods for SP 2 will now be based on applications by LGs, with transparent and objective eligibility criteria and clear selection process. That criteria needs to be developed.
New	<p>Prepare the templates for:</p> <ul style="list-style-type: none"> -quarterly project reports (rapports trimestriels d'avancement des projets) to be transmitted by LGs and ARRU in all project stages before the commencement of works; - quarterly work progress reports (rapports trimestriels d'avancement des travaux) to be transmitted by LGs and ARRU during works implementation; - a project completion report (rapport d'achèvement des travaux) <p>These documents will ensure close monitoring of the DLRs under DLI7, as well as of the intermediate results</p>	7/31/2018	CPSCL, which will regularly transmit these consolidated documents to the SP 2 Technical Committee/ CAP for their information	Templates finalized	M&E documents prepared for an improved monitoring of SP 2 projects.

	indicators pertaining to Sub-Program 2 under Results Area 2 (nbr of km of roads built or rehabilitation and nbr of lighting points installed)				
New	Improve functionality of grievance redress systems	<p>[1] 12/30/2018</p> <p>[2] 7/20/2019</p> <p>[3] 12/30/2020</p>	MALE/LGs	<p>[1] Develop protocol for small, medium, large LGs.</p> <p>[2] Undertake training/TA for municipalities to strengthen GRM</p> <p>[3] Test technological options to facilitate GRM</p>	This aims to further strengthen accountability and anti-corruption mechanisms in LGs. This action will help the Program achieve its results objectives. This TA will also help review feedback on GRM as part of the citizen feedback system and as part of strengthening accountability. Follow up training/TA for the next group of municipalities would also take place.
Area 4 - Country systems improvement					
Ongoing PAP actions # 10,11 and 12 revised. PAP actions #13 and 14 dropped. New actions introduced to reflect new changes under the AF.					
Revised	10. A revised decree is adopted by the ANPE which addresses gaps identified in the ESSA, including (i) screening and categorization of activities requiring an EIA or an EMP; (ii) public consultations, public disclosure and grievance mechanisms; (iii) social assessment; and (iv) monitoring and evaluation.	12/31/2018	ANPE / MALE	Finalization and entry into force of the new EIA decree by end of CY18 (extended date given slower than expected progress).	<p>The decree has been prepared but not yet enacted. The new completion date for the finalization and entry into force is CY2018.</p> <ul style="list-style-type: none"> • Training will be offered to increase the capacity of ANPE to administer the national EIA system. This would cover several aspects related to

	Implementation of capacity-building program established as part of the upgrading of the national EIA system	PDUGL duration		Training administered.	human and material resources, such as: <ul style="list-style-type: none"> • Strengthening of ANPE staff in charge of EIAs, screening and categorization, social impact assessment, public consultation, disclosure of information, etc. • Development of tools and documents specific to the E&S monitoring and evaluation of projects.
Revised	11. The capacity of the CoA (<i>Cour des comptes</i>) and in particular its local branches is improved in order to perform annual financial audits of municipalities based on risk and in compliance with international norms of auditing (ISSAI).	December 31 of every eligible year	CoA	Annual audits of LGs are completed as per targets set in DLI 8 for CY 16, CY 17, CY 18, CY 19, CY 20	Extended, every year until the end of the Program.
Revised	12. Municipalities to prepare and implement annual action plans to address audit findings within a period of six months after the receipt of the audit report.	June 30 of every eligible year	LGs	Program Reports provided by CPSCL	Extended, every year until the end of the Program
Dropped	13. Citizen's Bureau in each municipality to be operationalized and their performance in grievance resolution monitored by the municipal councils.	N/A	LGs and MALE	Program Reports provided by the CPSCL	Replaced by a more suited PAP action on grievance redress mechanisms by LGs instead of Citizen's Bureau.
Dropped	14. Good Governance Cells established in all municipalities by the second year of the Program.	N/A	LGs and MALE	Program Reports provided by the CPSCL	Dropped following the MTR given that this was considered redundant with other actions undertaken under SP 1. This function is being

					addressed in a different form that has demonstrated to be more developmentally sound than introducing a new institution.
New	Develop and implement HRM tools	12/31/2019	MALE/LGs	Preparation and deployment of job descriptions for key functions in LGs Revise and update guidance manual on staffing and recruitment in LGs	Implement HRM tools at the level of MALE and LGs for improved strategic staffing. This will ensure sustainable and structural reforms are accelerated and support MALE in achieving its HR results as outlined in the DLI.
New	Strengthen the M&E system that enables easier tracking of municipal investments progress at the central level	CY19, CY20	CPSCL / MALE	M&E system is functional	Through parallel TA support, ensure that the M&E IT system is operational and ensure random field checks on the ground are carried out to (a) verify the reliability of the reports being submitted by the LGs through the IT system and (b) assess quality of works.
New	Government stakeholders move forward on the development and approval of LG accounting and auditing standards consistent with international norms.	CY 19, CY 20,	MoF; MALE; CoA	Issuance of decrees regarding LG accounting and auditing; carrying out of LG asset registries and establishment of	The effective decentralization of decision-making to local governments, as expressed in the LG Organic Law, depends in part on the ability to conduct ex-post financial controls based on accrual-based accounting standards. Several years into the decentralization program, there

				initial balance sheets; introduction of standards to LGs ⁶³	has been only limited progress toward the improved financial management, reporting, and auditing envisaged in the code. This action supports forward progress on the establishment of modern accounting standards that will allow both the tracking of revenues and expenditures, but also clear statements regarding LG assets and liabilities, sources and uses of funds.
New	Improving use and accessibility of E-portal	3/31/2020		Enhance/revamp the portal to allow automatic interfacing with national information systems for timely publication of data Publish digital versions of project related	Experience from the first two years of implementation have shown that the achievement of the portal's core objective of increasing transparency and access to information related to LG affairs and program performance has been limited by lack of regular updates, weak accessibility of information, and limited mechanisms for citizen feedback and transparency. Resolving these issues through specific actions such as ensuring automatic

⁶³ As part of Government's efforts to develop and implement accounting standards for local governments, they plan to:

- In 2019, issue decree on LG accounting standards (which are being developed during 2018) and decree on format of a registry for local governments' fixed assets.
- In 2020, the government will follow up with the issuance in the National Gazette of an arrêté for local government accounting standards and an arrêté on the registry for local governments' fixed assets.
- In 2021, the government plans to publish a decree establishing conditions and modalities for local government audits. Such conditions are planned to be developed in 2020, and are expected to include arrangements for private-sector auditing firms to audit local governments, under the oversight of the Court of Accounts.

				<p>documents (ACDPs, Annual Investment Plans)</p> <p>Enhance/revamp LG websites - to support more user-friendly information.</p>	<p>interfacing with national IT systems, digitalization of a number of program related mechanisms (Annual Capacity Building Plan, Annual Investment Plan), and improving feedback mechanisms will contribute to achievement of the DLIs and allow citizens better access to information. The second objective of the portal will be to support LGs in meeting minimum transparency requirements set by law through providing them with a customizable website accessible on the E-Portal.</p>
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ANNEX 8: EVOLVING DECENTRALIZATION CONTEXT IN TUNISIA

1. **Drawing on the Maghreb governance and political economy filter, a review of political economy issues related to decentralization was undertaken as part of the AF preparation.** A certain number of challenges and opportunities are addressed by the Program and by other programs and donors, as noted in the Program Paper. Below is a summary of key points emanating from the review.

I. Decentralization Progress since 2014 in Tunisia

2. **The decentralization process in Tunisia cannot be understood in isolation from the country's transition to democratic systems and to a new social contract based on a new role for the state and economy.** In spite of significant progress, Tunisia remains a fragile, transitional democracy and faces challenges in deepening reform processes. Such challenges include difficulties in inter-ministerial coordination, fluid coalition politics, the difficulty of reaching agreement with powerful stakeholders, and instability risks. Such dynamics have slowed down the implementation of certain reforms. The decentralization process cannot be viewed in isolation from these dynamics.
3. **It is important to recognize the advances made by Tunisia in terms of decentralization since 2014.** The Constitution of 2014 calls for the government to ensure financial and administrative autonomy, participatory democracy, subsidiarity, budgetary transfers and own-resources at the local level along with a restructuring of the current *tutelle* system. To ensure the realization of these commitments the Government has undertaken the following actions, including:
 - Adoption (2018) of the LG Organic Law that transfers considerable powers to the LG level;
 - Completion of the first municipal elections (2018) appointing local elected officials;
 - Communalization of the country's entire territory through the creation of new communes and the enlargement of existing ones;
 - Creation of a new Ministry of Local Affairs in 2016;
 - Involvement of different ministries (in committees) to define key communal competences (Transport, Equipment, Environment and Local Affairs, Education, Finance & Health);
 - Parallel de-concentration processes affecting the central administration and its relevant regional services (such as the case with the water service provider, SONEDE);
 - Institutional strengthening through the restructuring of the LG fund allocation system. For example, a new Decree was gazetted and made operational. The Decree defines: (a) the unconditional and conditional grants; (b) the transfer of authority to LGs for all investment decisions on the use of the grant funds, and the responsibility for implementing these decisions with no ex ante central approvals; (c) the introduction of an allocation formula; (d) the decoupling of the grant from the requirement to borrow; (e) the requirement of LGs to meet MMCs to access grant funds; and (f) the introduction of an annual performance assessment system mediating the amount of the grant disbursement. Notably, the MoF has consistently transferred the grant funds to

- the LGs on time and in the amounts agreed, and the CoA is on track to audit 100% of eligible LGs;
- The set-up of LG performance evaluation mechanisms that are largely functioning;
- Application of administrative reforms at the LG level (e.g. financial management, transparency and accountability); and,
- The Government has been working with various donors on strengthening of local institutions and developing empowered LGs (KfW, GIZ, AfD, EU, UNDP, WB, USAID).

II. Key Risks in the New Decentralization Context

4. The identified risks reflect international experience concerning the political economy of decentralization, as well as the specificities of the Tunisian context:

- *Weak citizen trust in public institutions remains a challenge, and this has been reflected in public debates about LGs.* This is partly due to a public perception of local and regional governments (special delegations and governors) as insufficiently accountable. This is coupled with high citizen expectations from decentralization, even if we know from international experience that the gains can take time to materialize. Some improvement has, however, been seen in different LGs, which is attributed to the deepened participatory planning that has taken place under UDLGP and other initiatives.
- *Decentralization can create greater local accountability but it can also, without checks and balances, create weaknesses in accountability.* On the one hand, local elections and devolution can create greater local accountability. On the other hand, it will be important to reinforce transparency and accountability systems, as is proposed under the AF.
- *Human resource gaps need urgent attention.* The issue of human resources has not been given adequate attention at the local level in Tunisia as the gaps are large and are likely to expand (see Annex 4). Systems are not yet in place to address this. This lack of LG capacity could lead to a potential post-local election set of problems due to a lack of qualified municipal staff (especially at the executive level) as well as an urgent need for a modernization of HR management systems. Without sufficient human resources to undertake core LG functions, there is a risk that the decentralization process would lose some of its credibility.
- *Socio-economic challenges.* Certain LGs experience difficulties, particularly in terms of their financial situation (for example, debt levels) and regarding the availability of socio-economic opportunities.

III. Key Provisions under the LG Organic Law

- ### 5. The key provisions of the LG Law, which has been approved by the Assembly of Representatives of the People, give critical indications of the way the decentralization process will unfold in the coming years.
- The AF will adopt design measures in line with these systemic changes. Moreover, the principles of the Law are largely aligned with the Constitution of 2014 and the decentralization discourse in the Tunisian public sphere since that time. Box 1 sums up some of the key provisions.

Box 1. Provisions under Tunisian LG Law in Relation to Key Institutional Systems

a. Fiscal System

- LGs will have a legal status as well as corresponding financial and administrative autonomy. Communes will no longer be under the “supervision” of the central authorities; decentralization funds will be included in the government’s five-year financial plans;
- A fund to support decentralization will be created, with the state assisting communes in reaching financial equilibrium and effective administrative and financial autonomy. This is done through specific investments and loans. These loans, in the spirit of UDLGP grants, will be freely administered by the communes and are granted on the basis of a plan prepared by the relevant commune to achieving financial equilibrium and good governance. Additionally, agreements between the central authority and the communes can be reached to develop action plans to strengthen communal financial resources;
- Elected local councils, when fully equipped, will decide on the rates of the various fees, taxes (other than those considered included in Article 65 of the Constitution). This will be done within a minimal and maximal bracket set by the central authorities; and,
- Local authorities will be obliged to undertake internal audits and inform the central state of the relevant results; the central state supports communes in this process.

b. Transparency/Accountability

The Law devotes an entire chapter to transparency, participatory democracy and E-Government:

- In establishing development programs, LGs are obliged to resort to mechanisms of participatory democracy (notably municipal meetings and consultations) as already being operationalized under UDLGP.
- LGs will have a legal obligation to undertake the following tasks which will be supported under the AF and parallel TA:
- The law calls for, and makes it a legal obligation for LGs to abide by, the following measures:
 - A register for citizen feedback;
 - Publication (notably through the LG website) of regulatory decisions, financial data, contracts signed by the LG, (planned) investment projects, assets of municipal council members; and,
 - LGs to ensure citizen equality and representation, access to information and transparency. However, these mechanisms are not fully specified and will be detailed through government decrees following the adoption of the new Law.

c. Human Resource Management

The law focuses on the gradual transfer of competences to local authorities while respecting the principle of subsidiarity. The modalities of the above-mentioned transfer *remain to be clarified* but key principles are as follows:

- LGs bear the cost of remuneration of the staff they recruit in accordance with the Public Administration Staff Regulations and provisions applicable to them;
- LGs are authorized to grant, from their own budget, additional compensation for supplementary salaries to agents in category (A), which the State places at their disposal for a period determined by agreements concluded for that purpose. The amount of the indemnity shall not exceed half the salary of the agent and his/her premiums due on the basis of his/her original administrative rank. The officer placed at the disposal of the local authority retains the original rights he held prior to his/her transfer;
- LG agents are subject to the provisions of the general civil service statute and special provisions;

- The secretary general (SG) is responsible for the municipal administration and provides consultations to the municipal council and structures that depend on it. The SG attends the municipal council meetings and expresses his/her opinion and proposals without being entitled to vote. The conditions and the terms of appointment to the post of general secretary of the commune as well as his/her remuneration, transfer and dismissal are fixed by governmental decree;
- Municipal agents are remunerated on the account of the municipal budget. However, in cases where the situation of the municipality requires state aid, an agent of the State may be seconded to the commune, his remuneration is due by the State. Municipal agents are seconded by order of the Minister of Local Government, at the request of the president of the municipality concerned. The agents of the communes cannot be transferred without their written consent, with the exception provided for by the general civil service statute;
- The President of the commune shall, in accordance with the legal provisions in force, proceed to the appointment to the posts, grades and categories of civil servants and workers, within the limit of the number of posts fixed and approved by the council. The municipality runs the recruitment process in order to recruit civil servants and workers, within the limit of the number of vacancies, according to the existing modalities and procedures while respecting of the principle of equality and transparency. Vacancies registered in various municipalities may be grouped at the request of certain municipalities that would present their claim to the governor, for the purpose of organizing a recruitment procedure at the regional level on their behalf, in accordance with the existing regulations and procedures;
- The Presidents of local councils work full-time. They receive an allowance from the state budget. The members of the local councils exercise their functions free of charge. The vice presidents and his/her deputies receive a lump sum indemnity for reimbursement of expenses; and,
- Local authorities commit to controlling the wage bill. To this end, local authorities must work to ensure that the wage bill does not exceed the threshold of 50% of the appropriations of the first title of their budget. Those, whose wage bill exceeds 50%, must submit a plan setting a timetable for achieving the threshold objective. An agreement is concluded for this purpose between the said local authority and the central authority; and,

d. Responsibilities at Different Levels

The role of the LGs, Governors and central authorities is well defined in the Law (contrary to the existing legislation). LGs' mandate is clearly defined, specifically naming the municipal commissions, outlining the municipal council's prerogatives and explaining the boundaries and shared attributions of LGs and central authorities. New authorities are foreseen as part of the decentralization process including the following:

- High-level council for LG "*Haut Conseil/Instance Supérieure des Collectivités Locales*" (the members will be responsible for examining issues relating to development and regional balance and advising on draft laws related to local planning, budgeting and finance);
- High-level Institutions for Local Finances "*Haute Instance des Finances Locales*" (notably responsible for examining all matters relating to local finance, their modernization and sound management in accordance with the rules of good governance). To note that the principles of local finance in this provision are fully aligned with the UDLGP current and planned activities.