



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to notify you that the Millennium Challenge Corporation intends to sign a Millennium Challenge Compact with the Government of Tunisia.

The transmission of this notification to Congress on July 7, 2021 affirms that the Tunisia Compact may be signed and the funds obligated on or after 15 days from the date of this notice. Please find enclosed the notification with supplemental information regarding the compact.

If you require a meeting to discuss the compact with the Government of Tunisia, or MCC at large, please contact Brian Forni at (202) 521-2631 or ForniBJ@mcc.gov.

Sincerely,

/s/

Aysha House
Vice President
Congressional and Public Affairs

Enclosure as stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

July 7, 2021

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	Fiscal Years 2011, 2016, 2019, 2020, 2021 Program Funds
OBLIGATION AMOUNT:	\$498,700,000

Pursuant to section 610(a) of the Millennium Challenge Act of 2003, as amended (the "Act"), and the other statutory references cited in the statutory references and fiscal year funding sources table below, the Millennium Challenge Corporation ("MCC") wishes to notify the Congress of its intent to sign a Millennium Challenge Compact (the "Compact") with the Government of Tunisia through which MCC will grant an amount not to exceed \$498,700,000 to the Government of Tunisia under the Act. To accelerate implementation of the Compact, MCC intends to obligate up to \$46,819,000 ("Compact Facilitation Funding") of the overall grant under section 609(g) of the Act, using fiscal year 2020 funds, when the Compact is signed by the parties. Under Section 605 of the Act, MCC intends to obligate up to \$451,881,000 when the Compact enters into force. After the Compact enters into force, Compact Facilitation Funding that is not needed to accelerate implementation of the Compact may be deobligated, and up to an equivalent amount of funding may be obligated under section 605 of the Act. Such funding is included in the total amount of MCC funds under the Compact and will not increase the total Compact funding. The statutory references and fiscal year funding sources table included below sets forth the amount of funding under sections 605 and 609(g) of the Act for each fiscal year of funding.

The Compact will seek to assist Tunisia in addressing two major constraints to economic growth: (1) market control of goods and services; and (2) water scarcity. The Compact will address these constraints through two main projects: the Transport and Trade Project and the Water Demand Management and Productivity Project. In addition, in furtherance of the mandate of the Better Utilization of Investments Leading to Development Act of 2018 or the BUILD Act of 2018 for increased interagency coordination, the Compact program will include an American Catalyst Facility for Development Project to be conducted in collaboration with the U.S. International Development Finance Corporation that will support or complement the objectives of the Transport and Trade Project and the Water Demand Management and Productivity Project.

Projected Economic Justification for the Compact

The expected overall economic rate of return ("ERR") for the Compact is 17.6 percent, above MCC's typical hurdle rate of 10 percent. Due to the national scope of its impacts as well as the reform-orientation of the projects, the Compact is expected to provide benefits to the entire population of Tunisia, about 11.8 million people.

The breakdown of the ERR by project is described below.

Economic rates of return and net present values of Compact and projects

Compact component	ERR	Net present value at 10% discount rate (in millions of dollars)
Compact	17.6%	\$375.0
Transport and Trade Project	19.6%	\$335.9
Water Demand Management and Productivity Project	14.2%	\$30.1
American Catalyst Facility for Development Project	No ERR*	

The overall ERR of the **Transport and Trade Project** (the "Transport Project") is 19.6 percent and the net present value is \$335.9 million. Under this project, widespread benefits come through enhanced international and domestic trade; greater competition and hence lower prices in transport; higher exports; and more and lower-cost imports. Areas of the country and businesses that are strongly engaged in international trade will benefit more than others. On the consumer benefit side, lower cost imports will likely have larger proportional benefits for nonpoor households, for which imported goods tend to comprise a larger share of their budgets. On the other hand, employment gains in trade and from greater competition may benefit many low-income households.

The Transport Project presents several important opportunities for private sector investment. One of the most important is the introduction of private sector participation in the management of the Port of Radès and the adjacent Radès Logistics Zone. In addition to transport and logistics improvements, the Transport Project is expected to fund numerous trade and regulatory reforms as well as support to women-owned enterprises that are expected to further unlock private sector investment.

The ERR of the **Water Demand Management and Productivity Project** (the "Water Project") is 14.2 percent with a net present value of \$30.1 million. The primary benefits from this project are increased water efficiency resulting in either saved water in aquifers or increased production for targeted farmers. Water saved in aquifers is valued based on the current willingness to pay for water by farmers and how such willingness to pay will increase over time as shortages occur. Water saved in aquifers will decrease or eliminate these shortages in the near term, resulting in an economic benefit for the governorates. Water used by farmers for increased production is valued at the current impact water has on profits per hectare, disaggregated by crop type.

In terms of private investment, the Water Project is designed to help make groundwater supplies more sustainable, incentivizing investment by farmers. In addition, the project includes support to agricultural cooperatives to work with farmers to identify and introduce private sector solutions to improve water management and efficiency.

*Since specific investments have not yet been identified for the **American Catalyst Facility for Development Project** ("ACFD Project"), it is included as a cost with no benefits. The ERRs of the Transport and Water Projects are not affected by the absence of an ERR for the ACFD Project.

Statutory Reference Requiring Congressional Notification	Program Funding under Section 605 of the Act (up to) (in dollars)	Compact Facilitation Funding under Section 609(g) of the Act (up to) (in dollars)
“Millennium Challenge Corporation (Including Transfer of Funds)” of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2010, as carried forward by the Full-Year Continuing Appropriations Act, 2011	124,100,000	
“Millennium Challenge Corporation” of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2016	135,000,000	
Section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2019	67,600,000	
Section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2020	90,981,000	46,819,000
Section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2021	34,200,000	
Total	451,881,000	46,819,000

SUPPLEMENTAL INFORMATION REGARDING THE COMPACT WITH TUNISIA

Overview of MCC Tunisia Compact

The Board of Directors of the Millennium Challenge Corporation (“MCC”) has approved a five-year Compact with the Government of Tunisia in the amount of \$498,700,000 aimed at reducing poverty through economic growth. The Compact seeks to assist the Government of Tunisia in addressing two constraints to economic growth: (1) excessive market controls and government intervention, with a focus on the transport and trade sectors, and (2) water scarcity in the interior regions of Tunisia.

The Compact projects are strongly reform oriented and support the Government of Tunisia’s ongoing economic reform efforts. One is designed to address the root causes of poorly performing state-owned enterprises and excessive government regulatory and administrative requirements in the transport and trade sector (the “Transport Project”), and the other designed to alleviate water scarcity and over-exploitation of water resources which exacerbate social tensions, particularly in the interior of Tunisia (the “Water Project”). In addition, the Compact also includes an American Catalyst Facility for Development (“ACFD”) Project to be conducted in collaboration with the U.S. International Development Finance Corporation that will support or complement the objectives of the Transport Project and the Water Project.

The Tunisia Compact also advances MCC’s three strategic priorities: climate change, catalyzing private sector investment, and inclusion and gender. Climate change has been a fundamental consideration in the conceptualization and design of both of the main projects. The Transport Project’s initial assessment identified rising sea level as a critical risk and a key factor to consider in project selection. Further assessments will evaluate opportunities to include climate-related interventions in a green port project design. Similarly, the Water Project is specifically designed to move the country towards improved water sustainability in the face of climate change and is in support of Tunisia’s Nationally Determined Contribution priority sectors of water resources and agriculture. To support private sector investment, in addition to the ACFD Project, the Compact also features private participation in the management of port and logistics infrastructure as well as a partnership with the U.S. Small Business Administration which may introduce new water efficient technologies to farmers in Tunisia. On gender and social inclusion, the Compact features a dedicated activity in support of women entrepreneurs in addition to gender and social inclusion woven throughout the compact projects.

Background and Context

Tunisia is a lower-middle-income country of 11.8 million people, located on the northern coast of Africa, directly south of Italy. In 2011, a peaceful revolution overthrew the regime of Zine El Abidine Ben Ali in events that initiated the “Arab Spring” throughout the Middle East and North Africa. The revolution was in part fueled by a sense of economic and political disenfranchisement by residents in noncoastal areas of the country and by youth who struggled to find opportunity under the previous regime. Tunisia, a strategic ally for the United States in the region, is the only

country to emerge from the Arab Spring with a successful democratic transition. In 2014, Tunisia ratified a new constitution and successfully held presidential elections with a peaceful transition of political power.

Though Tunisia successfully transitioned to democracy, it has struggled to generate significant economic growth, reduce unemployment, particularly for women and youth, and address inequalities in social and economic opportunities. Most economic indicators are worse today than at the time of the revolution. Significant disparities remain across regions of Tunisia, especially between the more affluent coastal region around Tunis and the interior regions where 65 percent of poor Tunisians live. Jobs and economic opportunity remain concentrated in these coastal, urban areas where proximity to European and Mediterranean export markets is favorable. The Tunisian state has traditionally sought to protect domestic industries and sectors and has intervened heavily in many of these with the stated goal of providing social services or preserving jobs for Tunisian nationals. This level of involvement and control has generated a heavy regulatory burden on these sectors, limiting growth and job creation.

While Tunisia has experienced frequent government turnover in the last decade, each government has engaged with and supported MCC's compact development process. Most recently, the 2019 general election resulted in the election to president of a political outsider, Kais Saied, as well as a highly fragmented parliament. The formation of a new government in this context proved to be difficult with two new governments confirmed in 2020 as well as a reshuffle in early 2021. This election was seen as a testament of a growing frustration by the electorate with political leadership that many view as having fallen short of delivering on promises for economic opportunities and quality of life. The current government, led by Prime Minister Mechichi, faces the difficult task of navigating a challenging economic and fiscal environment while also tackling a major public health crisis due to the continued spread of COVID-19. Within this difficult environment, the Government of Tunisia is also trying to find consensus on an economic reform plan. In this context, MCC's investments in both the transport and trade as well as the water sectors, with a central focus on reform, will be an important tool to support the Government of Tunisia in its efforts to accelerate growth.

Compact Overview and Budget

MCC's Compact assistance in the transport and trade as well as the water sectors, with a central focus on reform, is designed to support the Government of Tunisia in its efforts to accelerate growth while at the same time also address regional disparities, a major factor in the 2011 revolution. The two Compact sectors represent Government of Tunisia priorities as well as major challenges identified by the private sector and civil society during consultations conducted as part of compact development.

MCC and Tunisia identified two constraints to economic growth that will be addressed by the Compact:

- Market Controls of Goods and Services: Extreme levels of state intervention and bureaucracy in goods and services markets create unreasonable regulatory requirements

and compliance costs to firms, which unduly prohibit certain actors from entering and exiting, and reduce firms' competitiveness; and

- Water Scarcity: Inadequate and variable supply of water inhibits medium- and long-term private investment in interior regions and reduces the sustainability of those investments, primarily in agriculture, creating a constraint to regional equity and sustainability.

The economic analysis identified a third binding constraint: restrictive labor market regulations, which was not prioritized for further development. Nonetheless, this constraint was integrated as a cross-cutting theme in project design to address the unequal participation of women and youth in the labor market.

The Compact seeks to address the selected constraints by financing the **Transport Project** and the **Water Project**.

Tunisia is committed to implementing the key reforms planned under each project in order to

- improve container terminal operations and container throughput at the Port of Radès, the principal port of Tunisia;
- reduce the overall cost of compliance of administrative trade procedures and cross border regulatory formalities nationwide; and
- increase water savings in the interior of Tunisia.

Below is a summary describing the components of the Compact.

Table 1: Tunisia Compact Budget

Component	Amount
1. Project 1: Transport and Trade Project	\$304,000,000
1.1 Activity 1: Transport and Logistics	\$260,000,000
1.2 Activity 2: Trade Facilitation	\$44,000,000
2. Project 2: Water Demand Management and Productivity	\$100,000,000
2.1 Activity 1: Policy and Institutional Reform	\$23,300,000
2.2 Activity 2: Small Scale Irrigation	\$65,300,000
2.3 Activity 3: Innovation and Inclusion	\$11,400,000
3. Monitoring and Evaluation	\$8,200,000
4. Program Administration and Oversight	\$52,300,000
5. Project 3: American Catalyst Facility for Development	\$34,200,000
Total MCC funding	\$498,700,000
Government of Tunisia Funding	\$34,837,500
Total Compact	\$533,537,500

Project Summaries

The Compact projects and activities are:

The Transport Project seeks to address the binding constraint of market control of goods and services, with a focus on the transport and trade sectors. Specifically, the Transport Project will tackle the following: (1) poor performance of the container terminal operator at Tunisia’s principal Port of Radès, (2) extensive time for the processing of cross border regulatory requirements, and (3) higher transport and logistics costs due to regulatory barriers in the transport and logistics supply chain.

The Transport Project is composed of two activities:

- The Transport and Logistics Activity will expand the number of berths and is designed to improve management at the Port of Radès to increase container throughput while reducing container clearance times to reduce associated container related trade costs and delays.
- Trade Facilitation Activity is designed to improve border control clearance processes at the Port of Radès and nationwide by simplifying and digitizing trade procedures, streamlining transport and logistics regulations; it also aims to help improve women’s access to markets and trade.

The Water Project seeks to address the binding constraint of water scarcity. The Water Project targets the three root causes to the binding constraint: (1) an absolute scarcity of water in the center and south of Tunisia, which limits growth, (2) an over exploitation of water resources due to its common pool resource characteristics, and (3) social tensions associated with perceptions of unequal access leading to success, typically in the form of additional wealth, to individuals and groups that are already successful. This project consists of three activities:

- The Policy and Institutional Reform Activity aims to improve management of a common pool resource, groundwater, and the framework of changing roles in the context of decentralization while increasing youth and women’s inclusion.
- The Rehabilitation of Public Irrigated Perimeters Activity intends to support the high-performing water user associations that have low-quality infrastructure.
- The Innovation and Inclusion Activity will support activity development to improve efficient use of water, increase farmer income through post-harvest initiatives, and target at-risk populations, including youth and women.

American Catalyst Facility for Development Project

In furtherance of the mandate of the BUILD Act of 2018 for increased interagency coordination, the Compact program includes \$34.2 million for an ACFD Project to be conducted in collaboration with the U.S. International Development Finance Corporation (“DFC”). ACFD-supported investments will be designed to incentivize, reinforce, and leverage Compact reforms by catalyzing potential DFC investments in Tunisia that would not otherwise be financially viable.

Investments implemented through ACFD in Tunisia will be consistent with the missions of both MCC and DFC, as well as all existing statutory requirements and authorities.¹

While specific ACFD investments will be confirmed after entry-into-force of the Compact, potential investments that are complementary to the Compact projects include:

- Financing the private partner investing in the Port of Radès. Attracting a private investor to the Port of Radès is one of the most critical elements of the program. While the Compact is funding the preparatory elements of the transaction, DFC can provide financing directly to the private companies investing in the Port of Radès.
- Investing in green port improvements for the Port of Radès, such as installations to receive solid and liquid waste from ships and port activities, clean-energy supply facilities, and container cleaning, maintenance, and repair.
- Investing to further develop the Radès Logistics Zone or one of a number of other logistics zones proposed across Tunisia.
- Financing for transport and logistics firms to facilitate movement of goods.
- Providing access to finance for female entrepreneurs through a female-specific fund, as a complement and additional benefit to the Compact's female entrepreneurs sub-activity.
- Water and wastewater treatment opportunities.
- Water efficient technologies for irrigation.

Policy Reform and the Compact

The Tunisia Compact is heavily reform-oriented and MCC and the Government of Tunisia recognize that the interventions will only produce the desired impact if substantive policy and institutional reforms are implemented and sustained. MCC and the Government of Tunisia have collaborated closely on the Compact reforms and have carefully considered their integration into the Compact. During compact development, the Government of Tunisia and MCC agreed on the key reforms which are now documented in the Compact. MCC has also consulted with other relevant donors so as to coordinate in advocating for key reforms.

Transport Project: Key reforms have been identified with a focus on improving the management and operations at the Port of Rades as well as to simplify and digitize trade procedures and regulations in the transport sector:

- Private Sector Participation at the Port of Radès: The most critical reform for MCC investment at the port is the introduction of a private firm to partner with STAM, the current terminal operator, to improve management of the container terminal at the Port of Radès.

¹ Appropriated funds provided by MCC that are associated with this compact may not be used by any party associated with the compact to provide DFC with gifts or donations that would fulfill any purpose described in section 1432(a)(4) of title III, division F, of Public Law 115-254.

- Cross Border Regulatory Processes Reform: Based on a prioritized set of actions to reduce the time containers sit at the Port of Radès, the Compact is designed to simplify and further digitize cross border clearance processes in the existing Single Window and support improvements to speed up border clearance.
- Transport and Logistics Supply Chain Reforms: The Compact will provide technical assistance to reduce unnecessary regulatory and administrative requirements in the transport and logistics supply chain and reduce the cost to trade.
- Women's Economic Empowerment: To advance gender equality in the legal framework, the Government of Tunisia has committed to reviewing legal provisions that limit working hours and sectors of work for women, and to create an action plan to address identified limitations specific to women.

Water Project: Reforms focus on decentralizing the decision-making around ground water resource management while ensuring water resources are managed in a sustainable manner. These reforms include:

- Updated Water Legislation: The passage of binding legislation updating the existing Water Code, prior to entry-into-force of the Compact, that will set the stage for a new decentralized institutional framework for water management.
- Strategic Groundwater Management Plans: The Compact will support plans to sustainably manage water resources in the context of local economic development objectives.
- Improved Agricultural Productivity: To improve the market power of farmers to sell their products, the legal framework governing agricultural cooperatives will be clarified to permit profit sharing and incentivize farmers' membership.
- Improved Participation of Women and Youth: The Government of Tunisia has committed to setting 30 percent targets for female and youth participation on the boards of water users associations and in agricultural cooperatives in targeted governorates.