



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you that the Millennium Challenge Corporation intends to obligate up to \$7,950,000 to facilitate the development and implementation of a Millennium Challenge Compact with the Government of Tunisia.

The attached notification is being sent to the Congress on February 20, 2018. Obligation of funds may be incurred on or after 15 days from the date of this notification.

In addition, we have attached supplemental information that further describes the planned use of the funds. If you or your staff would like to arrange a meeting to discuss the program, please contact Dan Chaison at (202) 521-3593 or chaisondm@mcc.gov.

Sincerely,

Chris Dunn
Chief of Staff (Acting)
Office of the Chief Executive Officer

Enclosure: As stated

MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION

February 20, 2018

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| PROGRAM: | Eligible Countries |
| APPROPRIATIONS CATEGORY: | Fiscal Year 2018 Program Funds |
| OBLIGATION AMOUNT: | \$7,950,000 |

Pursuant to sections 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2017, as carried forward by the Continuing Appropriations Act, 2018, as amended, this is to advise that the Millennium Challenge Corporation (“MCC”) intends to obligate up to \$7,950,000 under section 609(g) of the Millennium Challenge Act of 2003, as amended, for the purpose of facilitating the development and implementation of a Millennium Challenge Compact with the Government of Tunisia.

The funds are expected to finance activities necessary for program design, including assessing the expected impact of the proposed compact and developing implementation strategies.

SUPPLEMENTAL INFORMATION - MCC 609(G) ACTIVITIES FOR TUNISIA

Background

Tunisia is a lower-middle income country of 11.4 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 non-coastal areas of the country and by youth who struggled to find economic opportunities under the previous regime. Tunisia 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.

Despite a successful democratic transition, Tunisia struggles to reduce youth and female unemployment and inequalities in social and economic opportunities. 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 coastal, urban areas with favorable proximity to European and Mediterranean export markets. Tunisia has traditionally sought to protect domestic industries and sectors, and 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. The result has been unequal growth and job creation skewed towards the urban coastal areas, and unemployment in interior regions is significantly higher than in the two coastal regions.

Compact Eligibility and Constraints Analysis

After demonstrating a strong scorecard performance and a commitment to working with the United States, Tunisia was selected by MCC’s Board of Directors as eligible to develop a compact in December of 2016. Tunisia passed 14 out of 20 indicators on its fiscal year 2018 MCC scorecard, including both the Democratic Rights and Control of Corruption hard hurdles.

Tunisia is a reliable partner for MCC and has demonstrated an early commitment to an inclusive and transparent compact development process. From March to July 2017, MCC and the Government of Tunisia conducted research, stakeholder meetings, and regional consultations to identify the binding constraints to economic growth and investment in Tunisia.

That analysis identified three binding constraints: (i) excessive state control of markets for goods and services, (ii) restrictive labor market regulations, and (iii) water scarcity in the interior regions, which was found to be a constraint to regional equity and sustainability. In September 2017, MCC and the Tunisian Compact Development Team initiated diagnostics to better understand the root causes of the binding constraints. By October 2017, Tunisia completed consultations with many stakeholders, including the private sector and civil society in four of Tunisia’s six regions. Together with MCC, the Government of Tunisia agreed to narrow the focus for potential compact investments to address root causes of the binding constraint related to the excessive market

controls and water scarcity, while incorporating some specific interventions to reform restrictive labor regulations. The Government of Tunisia then submitted two concept notes for MCC consideration, which were developed in an inclusive and transparent process from October to December 2017.

If the current timeline holds, MCC's Board of Directors would likely consider a fully developed compact program for Tunisia in the fourth quarter of fiscal year 2019.

Summary of Proposed Project Interventions

Potential compact projects may focus on the following objectives:

1. *Improvements of the Business Climate.* If this project proves viable, MCC would work with Tunisian counterparts to create a rationalized, transparent, accessible and equitably administered business environment that encourages growth, job creation, investment, and efficient allocation of economic resources. The project aims to address market distortions, minimize the role of the state in the economy, reinforce the role of the private sector, and reduce bureaucracy. Despite needing more analysis before specific projects can be identified, the Tunisian Compact Development Team has proposed a number of potential interventions to achieve these objectives. These include (i) simplifying procedures for authorizations, permits, and approvals; (ii) supporting small and medium-sized enterprises and female entrepreneurs; (iii) improving the competition framework; (iv) improving availability of information about and monitoring of Tunisia's labor market practices; (v) restructuring and improving the efficiency of state-owned enterprises; (vi) establishing public-private partnerships; and (vii) improving service delivery and reducing corruption through an e-government platform.

2. *Alleviating Water Scarcity to Promote More Consistent Agricultural Production in the Interior Regions of Tunisia.* If this project proves viable, MCC would aim to improve the livelihoods of farmers and households in the interior region by providing them with an adequate, consistent, and sustainable supply of water. The project may support four goals: increase water supply, reduce the negative impacts of variable water supply, remedy problems stemming from poor water quality, and improve the governance and management of water resources. To achieve these goals, the following interventions have been proposed: (i) improve the management of existing infrastructure; (ii) mobilize alternative water resources (*i.e.*: additional rain water collection, water reuse, and desalination); (iii) fix and renovate existing water infrastructure; (iv) promote smart agricultural practices in irrigated zones; and (v) implement policy reforms in the water and agricultural sectors to increase the economic value and efficient use of water as well as provide incentives for water conservation.

Assistance to Develop the Compact Proposal

In order to assist Tunisia to further develop the proposed compact, MCC intends to fund preparatory, assessment, and feasibility activities to further narrow project ideas for both the water scarcity and business climate concepts and to support project proposal development. It is planned that funds will also be used to assess compliance with MCC's environmental guidelines and gender policy, identify opportunities for enhanced participation of women and vulnerable groups, collect

economic data, start cost-benefit analyses, and further advance both concepts in order to ensure that the proposed compact projects could be properly implemented. Funding these activities reflects MCC's commitment to prepare projects in a comprehensive manner prior to compact signing, increase confidence in the economic justification and technical feasibility of the proposed projects, and reduce implementation risk.