



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

This Congressional Notification outlines the Millennium Challenge Corporation's intent to negotiate a Millennium Challenge Compact with the Government of Tunisia.

The transmission of this notification to Congress on April 1, 2021, affirms negotiations concerning the proposed Tunisia Compact may begin on or after 15 days from the date of this notice. Please find enclosed, the notification with supplemental information regarding the proposed compact.

If you require a meeting to discuss the proposed compact, negotiations 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

April 1, 2021

Pursuant to the headings (i) “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; (ii) “Millennium Challenge Corporation” of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2016; (iii) section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2019; (iv) section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2020; (v) section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2021; and (vi) section 610(a) of the Millennium Challenge Act of 2003, as amended (Act), this notification is to advise you that the Millennium Challenge Corporation (MCC) intends to commence negotiations with the Government of Tunisia for a Millennium Challenge Compact under section 605 of the Act.

The proposed 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. It is planned that the compact will address these constraints through two projects: the Transport and Trade Project and the Water Demand Management and Productivity Project. In addition, in furtherance of the mandate of the BUILD Act of 2018 for increased interagency coordination, it is planned that the compact program would 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 proposed compact is 17.6 percent, exceeding MCC’s minimum 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	No ERR*	

The overall ERR of the **Transport and Trade Project** (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.

MCC’s approach to beneficiary analysis for national infrastructure and regulatory reform projects generally assumes that all households in the country are beneficiaries, whose number is projected to increase to 13.6 million individuals by 2045, the final year of the 25-year period for ERR calculations for the Transport Project.

In contrast, the Improving Women’s Access to Markets and Trade Subactivity, under the Trade Facilitation Activity, is more targeted and will benefit mainly the 2,000 female entrepreneurs participating in the training intervention and their households, as well any individuals hired by these businesses due to expansion resulting from the program. By design, therefore, women will be the primary beneficiaries.

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 Rades and the adjacent Rades 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** (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 (WTP) for water by farmers and how the WTP 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.

SUPPLEMENTAL INFORMATION—PROPOSED TUNISIA COMPACT

Overview

The proposed \$498.7 million compact with the Government of Tunisia addresses 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 through two projects: the Transport and Trade Project and the Water Demand Management and Productivity Project. In addition, the proposed compact also includes 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.

Background

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 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 a political outsider, Kais Saied, being elected to the presidency 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 spread of COVID-19. In this context, MCC’s proposed investment 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 Proposal Overview and Budget

MCC's proposed 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 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 proposed 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 proposal seeks to address the selected constraints by financing two projects: the **Transport and Trade Project** and the **Water Demand Management and Productivity 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 Rades, 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.

The budget and expected impacts of the compact, based on initial due diligence and project appraisal, are subject to change following compact negotiations. The anticipated budget for the compact is detailed below.

Table 1: Tunisia’s Proposed 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

Proposed Projects

The Transport and Trade Project (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 Rades, (2) extensive time for the processing of cross border regulatory formalities, 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 improve management at the Port of Rades to increase container throughput while reducing container clearance times to reduce associated container related trade costs and delays.
- Trade Facilitation Activity will improve border control clearance formalities at the Port of Rades and nationwide by simplifying and digitizing trade procedures, streamlining transport and logistics regulations; it will also help improve women’s access to markets and trade.

The Water Demand Management and Productivity Project (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 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, it is planned that the compact program would include \$34.2 million for an American Catalyst Facility for Development Project (ACFD Project) to be conducted in collaboration with the U.S. International Development Finance Corporation (DFC). ACFD-supported investments will 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, potential investments that are complementary to the compact projects include:

- Financing the private partner investing in the Port of Rades. Attracting a private investor to the Port of Rades 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 Rades.
- Investing to further develop the Rades 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

MCC has identified the following key policy reform areas to support the sustainability of the proposed compact, the timing and content of which will be negotiated with the Government of Tunisia and will be included in the compact.

¹ Appropriated funds provided by the MCC that are associated with this compact may not be used by any party associated with the compact to provide the 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.

The Transport Project is designed to be a reform-based project. There are three key areas of reform in this project. These include the reform of port management, including introduction of private sector participation, transport and logistics supply chain reform and improved risk management, simplification and digitization of border control clearance formalities.

The central premise of the **Water Project** is to improve groundwater management and thereby improve sustainability of a scarce resource, in areas that are heavily dependent on groundwater resources. There are a number of legal, regulatory, and institutional reforms in the project. One of the most important is the passage of a new framework Water Code which includes provisions for increased local responsibilities for water management; strengthened enforcement of authorized use, and changes in tariff and cost-recovery principles.