



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you that the Millennium Challenge Corporation intends to provide assistance, in addition to funds previously notified on February 20, 2018, to the Government of Tunisia to facilitate the development and implementation of a Millennium Challenge Compact.

If you or your staff would like to arrange a meeting to discuss the assistance, please contact Jennifer Lackey at (202) 521-3880.

The attached notification is being sent to the Congress on December 10, 2018. The assistance may be provided and the funds obligated on or after 15 days from the date of this notification.

In addition to the enclosed notification, we have attached supplemental information regarding the planned assistance.

Sincerely,

/s/

Karen Sessions
Vice President
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

December 10, 2018

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	Fiscal Year 2018 Program Funds
OBLIGATION AMOUNT:	\$2,800,000

Pursuant to section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2018, and section 610(a) of the Millennium Challenge Act of 2003, as amended (the "Act"), this is to advise that the Millennium Challenge Corporation ("MCC") intends to obligate up to \$2,800,000 under section 609(g) of the Act to provide assistance to the Government of Tunisia for the purpose of facilitating the development and implementation of a Millennium Challenge Compact with MCC.

The funds are expected to finance activities necessary to assess the expected impact of the proposed compact, further design activities and develop 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 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 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 has a successful story of democratic transition, the country 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 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 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

In December 2016, MCC’s Board of Directors selected Tunisia as eligible to develop a compact after it demonstrated a strong scorecard policy performance and a commitment to a strong partnership with the United States. Tunisia passed 13 out of 20 indicators on its fiscal year (FY) 2019 MCC scorecard, including both the Democratic Rights and Control of Corruption hard hurdles.

Tunisia is a strong partner for MCC and has demonstrated an early commitment to an inclusive and transparent compact development process. From March to August 2017, the MCC Country Team and the Government of Tunisia compact development team conducted research to identify the binding constraints to economic growth and investment. The teams conducted stakeholder meetings as well as consultations throughout Tunisia to incorporate diverse perspectives. 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 Government of Tunisia compact development team initiated diagnostics to better understand the root causes of the binding constraints. By October 2017, both the MCC country team and the Government of Tunisia compact development team completed consultations with many stakeholders, including the private sector and civil society in four of Tunisia’s six regions. MCC and the Government of Tunisia agreed to narrow the focus for potential compact projects 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 for MCC consideration two concept papers that were developed in an inclusive and transparent process from October to December

2017. In February 2018, based on a successful review of the concept papers, MCC invited the Government of Tunisia to submit detailed project proposals containing activities to address the root causes of the two identified binding constraints, which were submitted on August 17, 2018.

The two proposals were entitled “Business Climate Modernization” and “Alleviation of Water Scarcity to Promote Increased Productivity.” MCC has reviewed these proposals and identified a number of activities that are likely to meet our compact approval criteria and promote economic growth in Tunisia, and is proceeding to develop a compact with two projects based on these elements of the proposals.

MCC currently projects that the MCC Board of Directors will consider a fully developed compact program for Tunisia in the first quarter of FY 2020.

Summary of Potential Compact Projects

The Business Climate Modernization Project proposal addresses the root causes of the binding constraint of excessive government controls on markets for goods and services. The principal identified root causes are inefficient and excessive intervention of the state in the economy as evidenced by burdensome regulations that restrict market access, a high tax burden, uneven application of rules, poor-performing public institutions, and poorly targeted and costly price controls and subsidies. The project proposal contains a suite of activities designed to address these root causes, primarily by supporting policy reforms that will modernize and streamline Tunisia’s business environment, improve and digitize the processes by which the government and businesses interact, facilitate increased trade and movement of high-value commodities, and increase opportunities for inclusive participation of all Tunisian citizens, including women and youth, in economic activities in priority sectors (including agriculture and agribusiness, thereby ensuring complementarity with the water project). Implementation of these policy reforms will remove elements of the constraint and reduce the cost and time burden on business for critical services like transport, customs and tax administration, provision of market information, and government requirements (such as permitting and authorizations). To incentivize and increase the impact of the reforms, the Business Climate Modernization Project proposal also includes interventions in information technology and infrastructure.

The Alleviation of Water Scarcity to Promote Increased Productivity Project proposal consists of activities designed to address the root causes of the identified water scarcity binding constraint to the sustainability and regional equity of growth. The proposal is derived from the 2016–2020 National Development Plan, consultations with the Ministry of Agriculture, Water, and Fisheries, the Ministry of the Environment, and the Ministry of Development, International Cooperation, and Investment, reflects the National Strategy to Strengthen Rural Women’s Empowerment, and is complementary with the efforts of other development partners active in this sector in Tunisia. The proposal contains activities that aim to improve the quality and reliability of Tunisia’s water supply, incorporate principals of sustainability and conservation into water demand, increase productivity in agriculture through more efficient use of available water and improved allocative efficiency, and enhance opportunities for increased participation of women and youth. The project proposal also includes a set of sector policy reforms to promote improved allocation, pricing, and decentralized management of Tunisia’s scarce water resources.

Assistance to Develop the Compact Proposal

The proposed assistance, in addition to funds previously notified on February 20, 2018, will be used to assist Tunisia in further developing the proposed compact. MCC intends to fund assessment, feasibility, and design activities to further develop activities for both proposed projects. These funds will also be used to assess safeguard compliance, identify opportunities for enhanced participation of women and vulnerable groups, collect economic data, start cost-benefit analyses, and identify policy reform priorities to ensure that the proposed compact projects are ready for implementation. 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.