Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 09-Feb-2024 | Report No: PIDISDSA37411

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Tunisia	P181565	Second Additional Financing to Tunisia Emergency Food Security Response Project	P179010
Parent Project Name	**Region**	**Estimated Appraisal Date**	**Estimated Board Date**
Tunisia Emergency Food Security Response Project	MIDDLE EAST AND NORTH AFRICA	01-Feb-2024	14-Mar-2024
Practice Area (Lead)	**Financing Instrument**	**Borrower(s)**	**Implementing Agency**
Agriculture and Food	Investment Project Financing	Ministry of Economy	Office des Céréales

Proposed Development Objective(s) Parent

To ensure in the short-term the supply of (i) agricultural inputs for farmers to secure the next cropping season and for continued dairy production and (ii) wheat for uninterrupted access to bread for poor and vulnerable households; and to strengthen Tunisia's resilience to food crises by laying the ground for reforms of the grain value chain.

Proposed Development Objective(s) Additional Financing

To (a) ensure, in the short-term, the supply of (i) agricultural inputs for farmers to secure the next cropping seasons and for continued dairy production, and (ii) wheat for uninterrupted access to bread and other grain products for poor and vulnerable households; and (b) strengthen Tunisia's resilience to food crises by laying the ground for reforms of the grain value chain.

Components

Emergency support to farmers
Emergency purchase of wheat for food security
Improving resilience to food security shocks and project management

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	300.00
Total Financing	300.00
of which IBRD/IDA	300.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	300.00

Environmental and Social Risk Classification

Substantial

B. Introduction and Context

Country Context

1. **Tunisia continues to face highly challenging macro-economic conditions, aggravated by the ongoing drought**. The severe drought that hit the country in 2023 has further slowed down an already modest recovery, marred by uncertain external financing and continued regulatory barriers to growth. As a result, the economy only expanded in real terms by 0.7 percent in the first three quarters of 2023, a third of the rate of 2022, and almost a sixth of the 2021 rate (4.4 percent). Real GDP remains well below pre-crisis levels (-2 percent). This performance has been comparatively weak vis-à-vis Tunisia's peers, which exhibited lower declines during the pandemic and more sustained recoveries. The weak recovery adds to the challenge of securing sufficient external funds to finance the large structural current account and budget deficits. This has been compounded by high inflation (8.1 percent in December 2023) particularly food inflation (12.1 percent). As a result, the country is facing shortages of some basic consumer products, which are affecting more acutely the poorest and most vulnerable segments of the population. Last year's extremely poor harvest has led to acute grain shortage since June 2023, resulting in long lines at bakeries with regular lack of bread a few hours after opening. Tunisia has currently no active IMF program. A staff level agreement for a new program had been reached in October 2022 but the program has not materialized to date.

2. **Tunisia's limited access to foreign capital along with rising debt of State-Owned Enterprises (SOEs) have led to continued shortages of some basic imported products.** Tunisia's constraints in accessing international financing have made it increasingly difficult to secure the funds to cover these needs. With relatively thin reserves and increasing debt of SOE importers, the rising Current Account Deficit (CAD) has translated into shortages of basic products, including cereals, sugar, dairy products, coffee and pharmaceutical products. For example, as the drought reduced Tunisia's durum wheat harvest in 2023, the Grain Board (*Office des Céréales* – OC) had difficulties to step up its imports to compensate for the shortfall, thus contributing to the shortages on the market. The system of price control that regulates the markets of wheat and other basic products is a key driver of the increasing indebtedness of the state-owned marketing boards and hence of the shortages.

3. **Pressure on the budget continued to be high as subsidies and transfers remain elevated and the economic crisis affects indirect taxes.** While the budget was balanced during the first half of 2023 mainly thanks to the moderation of the public wage bill growth and the robust performance of direct taxes, pressure on the budget remains high as consumer subsidies remain high and indirect taxes are under-performing. Subsidies and transfers increased by 15 percent in the first half of the year. At the same time, indirect taxes only grew by 6 percent as a result of weak demand.

4. **The sustained budget deficits of the past years have increased public debt, also raising the burden of Tunisia's debt service.** Given the limited access to international financing, the Central Bank (BCT) continues to

refinance the domestic banking sector for treasury bond purchases. The sustained use of local funding to finance public debt continues to crowd out the credit to the rest of the economy. As external financing conditions remain tight, imports have continued to be compressed. That is particularly the case for highly indebted state-owned trade boards which hold the monopoly over the import and distribution of specific products. When drought reduced Tunisia's durum wheat harvest by two-third in 2023 compared to the previous year, the OC had difficulties to step up its imports to compensate for the shortfall.

5. **With these challenging economic conditions, Tunisia currently faces increasing poverty and inequality with poor and vulnerable households suffering the most from drought.** Official poverty measured by the National Institute of Statistics (INS) declined from 20.5 percent in 2010 to 15.2 in 2015, but it rebounded to 16.6 percent in 2021. The percentage of the Tunisian population who are vulnerable to fall into poverty using the Upper Middle-Income Poverty Line of US$6.85 per day (2017 PPP) dropped from 31.1 percent in 2010 to 18.0 in 2015, but it reached 20.2 percent in 2020. The Gini Index measuring inequality declined from 35.8 to 32.8 between 2010 and 2015 but increased to 35.3 in 2021 with wide regional and urban/rural disparities. Poor households are the most vulnerable to the negative impacts of climate change, and this is particularly true in rural areas where recurrent droughts are compromising the livelihoods of smallholder farmers.

Sectoral and Institutional Context

6. **An exceptional drought exacerbated by climate change has dramatically affected Tunisia's grain production in 2023**. Even considering that the 'new normal' is reduced precipitations under the current impact of climate change in Tunisia, the year 2023 stands out in terms of lack of rainfall and excessive heat. For the fourth consecutive year, below-average rainfall and extreme heat have combined to dramatically compromise Tunisia's grain production in 2022/23. The Grain Board has collected less than half of durum wheat quantities in 2023 compared to average drought years 2020-22 and two-thirds less than in a non-drought year (such as 2019), and almost no barley (1.3 percent of average drought years). Consequently, average monthly grain import needs have skyrocketed (100,000 MT/month for durum wheat and 100,000 MT/month for barley, currently estimated at US$48 million/month for durum wheat and US$28 million/month for barley). Rainfall in the fall of 2023, which is critical for the 2023/24 grain production campaign has been way below the required level. The month of November 2023 was also the hottest November in Tunisia since 1950. Hence, the trend is likely to continue in 2024, with grain production expected to be further curtailed compared to pre-drought years.

7. **The Tunisia grain sector faces multiple vulnerabilities leading to recurrent shocks, including the 2022 market shock and the current climate shock.** Tunisia's economic performance has decelerated since 2011, resulting in a lost decade for growth even before the Covid-19 pandemic. Tunisia's difficult socio-economic situation is partly due to the legacy of the domestic economic crisis and price inflation following the Covid-19 pandemic, as well as the impact of Russia's invasion of Ukraine that led to destabilized international grain markets in 2022/2023. Subsidies are the cornerstone of Tunisia's food security strategy, with the main responsibilities vested in the Grain Board (*Office des Céréales*-OC) and the General Compensation Fund (*Caisse Générale de Compensation*-CGC). In 2023, the Grain Board has faced a financial gap due to very low local harvest of durum wheat and barley. In 2022, Development Partners, including the World Bank, provided emergency support to preserve Tunisia's food security in response to the market shock. The current emergency financing needs of the Grain Board reflect the consequences of extreme drought on domestic grain production. In a tight macro-fiscal context, the GoT is in dire need of financial support to protect poor consumers and the productive assets of small farmers from drought, maintain national food security, and avoid potential social unrest.

8. **Beyond emergency needs, to address the market failures in the agriculture sector and climate and financial vulnerabilities of the grain value chain, the GoT is implementing a series of measures that will lead to a more sustainable sector and sizeable budget savings in the range of US$ 400-600 million per year.** Since the Parent Project was approved, GoT has been working on a renewed strategy for the grain sector together with reforms and other

accompanying measures to (i) boost domestic grain production, (ii) reduce Food Loss and Waste (FLW) and associated fraud, (iii) increase value added for the grain value chain, (iv) manage production risks, particularly resulting from drought, and (v) reduce OC's budget. A robust and impactful reform plan is under implementation, already resulting in the adoption of six significant reform measures thereby providing a strong basis for Development Partners (DPs) to move ahead with additional support to the sector. The adoption of two additional reform measures is part of sector policy dialogue with the GoT and is expected shortly, while another impactful reform is considered for implementation in the medium term. Reforms are (a) supporting farmers and fostering domestic production as this is key to minimize OC imports, (b) addressing market failures through opening the grain trade to private sector operators and reducing distortions, and (c) improving sector governance which is key to rationalize and control the current subsidy schemes. Reforms have been accompanied by GoT's recent completion of a geo-referenced inventory of all bakeries in Tunisia whether "classified" (therefore accessing bread-making flour quotas) or "modern" (working with pastry flour). This series of reforms would lead to OC's budget and fiscal savings estimated at US$576 million per year, while several accompanying measures (enhancement of grain logistics and storage, OC's governance and modernization) are supported by the donor community.

9. **In addition, the GoT is addressing climate vulnerability with the help of the World Bank and other DPs, particularly tackling smallholder farmers' adaptation to climate change and the consequences of water scarcity.** A coordinated package of DP assistance was developed in 2022 to mitigate the impacts of the volatility of international grain prices, enhance the governance of the grain sector, and invest in the modernization of grain logistics and value chain. Donor coordination is continuing, both for short-term response to the drought and for support to longer-term sustainable agricultural development, including support to mitigate recurrent water scarcity. In particular, the GoT has asked the Bank for expanded dialogue to further support smallholder farmers' adaptation to climate change, and requested assistance in the water sector to accelerate the implementation of Tunisia's 2050 Water vision towards the sustainable management of stressed water resources and towards efficiently and equitably satisfying growing water demand in the municipal, agriculture and industrial sectors. These recent requests are in line with the recommendations of the Tunisia Country Climate and Development Report CCDR.

C. Proposed Development Objective(s)

Original PDO

10. To ensure in the short-term the supply of (i) agricultural inputs for farmers to secure the next cropping season and for continued dairy production and (ii) wheat for uninterrupted access to bread for poor and vulnerable households; and to strengthen Tunisia's resilience to food crises by laying the ground for reforms of the grain value chain.

Current PDO

11. To (a) ensure, in the short-term, the supply of (i) agricultural inputs for farmers to secure the next cropping seasons and for continued dairy production, and (ii) wheat for uninterrupted access to bread and other grain products for poor and vulnerable households; and (b) strengthen Tunisia's resilience to food crises by laying the ground for reforms of the grain value chain.

Key Results

12. The proposed AF#2 will include: (a) activities to build climate resilience and to mitigate the impact of successive droughts and secure the next three harvests through adaptation measures including barley supply for animal feed and enhanced access by smallholder farmers to drought and heat-resilient seed production, (b) short term support for wheat imports in response to the unprecedented drought in a tight macro-fiscal context, and (c) additional activities to increase the resilience of grain producers to climate change and water stress, such as enhanced communication about climate resilient technologies, improved knowledge of the grain sector, particularly key aspects related to vulnerabilities from

increased drought and temperatures, and digitization of key processes to streamline operations and adjust to erratic climate conditions particularly in the seed sector. In particular, support is required over the next three seed production campaigns to mitigate the impact of repeated drought.

D. Project Description

13. The Tunisia Emergency Food Security Response Project is financed through an IBRD Loan in the amount of US$130 million and a first Additional Financing of USD 11.2 million financed by USAID. The Project is structured around the following components:

14. *Component 1 – Emergency support to farmers.* This component aims at mitigating the impact of increased agricultural input costs on production costs of smallholder dairy and grain producers. The Project has financed: (i) the import of barley in the amount of 61,444 metric tons (MT) as feed for the continuation of dairy production in calendar year 2022, and (ii) access to improved, climate-resilient seeds for smallholder producers of durum wheat to secure the fall 2022 planting season, in the amount of 34,655 MT.

15. *Component 2 – Emergency procurement of wheat for food security.* This component aims at securing soft wheat purchases to avoid bread supply disruption. It has financed the purchase of 160,099 MT of soft wheat in calendar year 2022 (equivalent to close to one month and a half of domestic consumption), and it is currently financing the procurement of approximately 25,000 MT of durum wheat as per the first Additional Financing (equivalent to one week of domestic consumption).

16. *Component 3 - Improving resilience to food security shocks and project management.* This component aims at addressing structural weaknesses in the grain value chain and distortions introduced by public support to producers and consumers. It has helped in identifying reform options to foster national food security and provides support for additional reforms that will be needed with regards to incentives for domestic producers, grain trade liberalization, and food subsidies.

17. **The Second Additional Financing will be based on the same three components** providing a balance between short-term emergency response, through support to producers by making key inputs available (barley and improved seeds under Component 1), the temporary purchase of wheat to maintain access to affordable bread and other grain products (Component 2), and medium-term measures (Component 3) to provide the analytical basis to address distortions and structural weaknesses in the grain value chains. The Additional Financing will also widen the coverage of the Parent Project by including a greater number of beneficiaries, especially amongst the poorest segments of the population who have been most affected by the current drought and socio-economic crisis, through additional supply of barley and provision of certified seeds.

18. **The Second Additional Financing will primarily benefit smallholder farmers who are adversely affected by the impacts of the drought and maintain access to bread and other wheat products for the most vulnerable segments of the Tunisian population.** It will provide wheat to supply about 7 weeks of national consumption and allow the vulnerable population to access bread and other wheat products (pasta and couscous) at a critical period of time before the 2024 domestic grain harvest. The provision of barley for animal feed (supply of about 10 weeks) is a critical adaptative measure for dairy producers affected by the lack of green fodder resources because of drought; this will be accompanied by advice to farmers on better feeding practices to increase animal productivity and reduce GHG emissions. AF#2 will also make sure that the genetic potential of local varietals (grain and leguminous) is maintained in the face of recurrent drought and provide for enough climate smart seeds to be readily available and accessible to farmers for three agricultural campaigns in a row; this activity will also be accompanied by advice to farmers on smart agronomic practices for crop rotation to increase productivity, reduce fertilizer needs and diminish GHG emissions. The Monitoring & Evaluation mechanism of the Parent Project has suffered from initial set-up delay, but it is now well-established, and it has shown good results as far as smallholder beneficiary targeting is concerned.

Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

19. The environmental risk rating for the second Additional Financing is currently considered 'Substantial' due to various factors. Key environmental risks are linked to the project activities under Component 2, which involves the purchase and temporary storage of wheat in government silos at designated ports. While the project is not categorized as high-risk and is not situated in environmentally sensitive sites, thus reducing the potential for extensive harm, it does involve activities that could lead to adverse environmental impacts. These impacts, which are mostly temporary, predictable, and reversible, include air emissions (like gaseous pesticide residuals and emissions from backup generators), organic dust, noise pollution, and the generation of solid, liquid, and hazardous wastes, notably from pesticide use. Although the project activities are not as complex as high-risk operations, and the impacts are largely manageable, routine safety precautions and standard management practices are essential to address these environmental risks effectively. The transportation to silos and other storage facilities around the country is noted as not being directly associated with the project, thereby somewhat limiting the overall environmental footprint.

20. The social risk rating is also currently maintained as 'Substantial' for the second Additional Financing, reflecting both the positive impacts expected from the project and the inherent risks. The project aims to benefit a wide range of stakeholders, including the Government of Tunisia (GOT), transport sector, the agrobusiness industry, smallholder farmers, and consumers, particularly those who are poor or vulnerable. Despite overall positive impact, the project involves certain social risks that are predictable and of a temporary nature, site-specific, and carry a low probability of serious effects related to social exclusion. Key social risks include the potential for child labor, forced labor, sexual harassment, discrimination, and health and safety risks associated with the offloading, loading, and storing of wheat. These risks will need to be carefully managed through stakeholder engagement, including consultative meetings, particularly focusing on the revised component 3 at the time of Additional Financing, to ensure informed and inclusive participation. These meetings will serve as platforms for comprehensive stakeholder engagement, addressing concerns, and incorporating diverse perspectives into the project's implementation.

E. Implementation

Institutional and Implementation Arrangements

21. **Project implementation arrangements will remain unchanged under the Additional Financing.** The overall project oversight will continue to be vested with a Project Steering Committee chaired by the Ministry of Agriculture, Water Resources and Fisheries (*Ministère de l'Agriculture, des Ressources Hydrauliques et de la Pêche*). The *Office des Céréales* (Tunisia Grain Board, OC) will continue implementing all project activities, in liaison with the MAWRF. The OC will continue to be responsible for M&E activities.

CONTACT POINT

World Bank

Christian Berger
Senior Agriculture Economist

Borrower/Client/Recipient

Ministry of Economy
Hager Chalouati
Director of the multilateral cooperation at the Ministry of
heger.Chalouati@mdici.gov.tn

Implementing Agencies

Office des Céréales
Salwa Zouari Ben Hdid
General Director
zouari.salwa@oc.com.tn

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Christian Berger

Approved By

Practice Manager/Manager:		
Country Director:	Alexandre Arrobbio	11-Feb-2024