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PERFORMANCE AUDIT REPORT

TUNISIA

MUNICIPAL SECTOR INVESTMENT PROJECT
(Loan 3507-TUN)

June 26, 2000

Sector and Thematic Evaluation Group
Operations Evaluation Department

Currency Equivalents

Currency Unit = Tunisian Dinar (TD)

Year average	US$1.00 equals TD:	TD 1.00 equals US$:
1991	0.93	1.08
1992	0.88	1.14
1993	1.00	1.00
1994	1.01	0.99
1995	0.95	1.05
1996	0.97	1.03
1997	1.11	0.90
1998	1.12	0.89
1999	1.16	0.86
(April) 2000	1.32	0.76

Abbreviations and Acronyms

CNPRCRM	-	*Centre National de Perfectionnement et de Recyclage des Cadres Régionaux et Municipaux* (Training Center for Local Staff)
CPSCL	-	*Caisse des Prêts et de Soutien des Collectivités Locales* (Municipal Funding and Support Agency)
MIS	-	Management Information System
MOF	-	Ministry of Finance
MOI	-	Ministry of Interior
OED	-	Operations Evaluation Department (of the World Bank)
PIC	-	*Programme d'Investissement Communal* (Municipal Investment Program)
PDM-I	-	*Projet de Développment Municipal-I* (Municipal Sector Development Project - the object of this audit)
PDM-II	-	*Projet de Développement Municipal-II* (Second Municipal Development Project – Loan 4202TUN, the follow-on project)
RHUDO	-	Regional Housing and Urban Development Office (of USAID)
TD	-	Tunisian Dinar
UNDP	-	United Nations Development Programme
USAID	-	United States Agency for International Development

Fiscal Year

January 1 – December 31

Director-General, Operations Evaluation	:	Mr. Robert Picciotto
Director, Operations Evaluation Department	:	Mr. Gregory Ingram
Manager, Sector and Thematic Evaluation	:	Mr. Ridley Nelson (Acting)
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The World Bank
Washington, D.C. 20433
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Office of the Director-General
Operations Evaluation

June 26, 2000

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

**SUBJECT: Tunisia: Performance Audit Report
Municipal Sector Investment Project (Loan 3507-TUN)**

Attached is a Performance Audit Report (PAR) prepared by the Operations Evaluation Department on this project for which the World Bank approved a Loan in an amount of US$75 million on July 2, 1992. The Loan was closed sixteen months *ahead* of schedule on August 19, 1998. Although not foreseen at appraisal, there was US$3.4 million cofinancing of the project by USAID and US$0.48 million by IDF. Counterpart funding by central government was US$76.1 million and by municipalities US$58.4 million.

Tunisia had been a borrower and partner to the World Bank in the urban sector since 1973. This was the first project, however, in Tunisia's traditionally centralized system of government to work systematically with local governments throughout the country. The project objectives were to: (i) increase the capacity of local municipal governments to fulfil their urban development responsibilities and increase their own resources; (ii) strengthen the Municipal Funding and Support Agency - CPSCL; and (iii) improve municipal provision of basic services.

This project--known as PDM-I in Tunisia—was a successful operation that helped municipalities in Tunisia become agents of local development through capacity building and helping them finance significantly more investments in urban services. On the fiscal side, there is solid evidence that municipalities performed better under the project than expected. Pressures to repay PDM-I loans and technical and training to help them do that helped encourage the good fiscal performance at the local level that was achieved.

There was plenty of evidence of the diverse forms of capacity building in the cities visited by the audit mission. In Kasserine, a city with a weak economic base in the semi-arid region near the frontier with Algeria, the local authority upgraded its skills in community participation in investment planning, as required by the project. Ariana, a city that is part of the metropolitan area of the capital Tunis, considerably improved its financial management—and mobilized more revenues—thanks to PDM-I's training and technical assistance according to local officials themselves. The third city Monastir, a prosperous historic center and tourist resort, began to contract out services formerly provided in–house in order to have the capacity to benefit from PDM-I's new financing opportunities. PDM-I helped these and other capacity building achievements in three ways; through laying out ground rules, giving cities advice and providing incentives for municipal improvement.

Tunisia's agency responsible for implementing the project was the Municipal Funding and Support Agency – CPSCL, known simply as the '*Caisse*' in Tunisia. The project helped transform it from a cashiers' window merely handing out central government grant money into an effective financial intermediary and central government development agency for municipalities.

The project also enhanced municipalities' ability to provide urban services and infrastructure. The most popular kind among local governments were urban streets, upgrading, and markets, which together accounted for 86% of all project investments.

There are two issues that clouds the achievements of this project. First, there is a need to target benefits more directly and explicitly upon the poor. Some local officials seemed unaware of this long-held priority for the Bank, especially in one city where some urban works clearly benefited the well-to-do. Second, and to build upon the success in institutional development, it is now time to focus upon the development outcomes of the project. It is no longer enough to pursue municipal resource mobilization for its own sake or to upgrade so many hectares of urban residential areas. It is important that urban specialists ask what improved resource mobilization means for local economic and social development? Also, how do more paved streets and better urban infrastructure improve the quality of life of Tunisia's poorer urban citizens? Within its effective management information systems, as a result of this project, the *Caisse* is in a strong position to help find answers to these questions.

In agreement with the ICR, the audit rates the outcome of the project as **Satisfactory**, the sustainability of its benefits beyond completion as **Likely**, and the institutional development impact as **Substantial**. The *likely* sustainability rating is contingent upon the continuing implementation of the follow-on PDM-II project that will help ensure ongoing monitoring of full loan repayments by municipalities, a few of which have sought to renegotiate their debt obligations. Full and timely repayment under agreed conditions is central to the long-term sustainability of an operation such as this.

Beyond ICR lessons that identify the need for a strategic context for this kind of project; strong political will as a necessary condition for reform; and caution not to over-estimate local government capacity for change, lessons from the PAR are that project designers should look beyond project outputs toward development outcomes, particularly the impact upon the poor, and municipal capacity building has single blueprint and has to be tailored to the specific needs of individual cities.

Contents

This report was prepared by Roy Gilbert (Task Manager), who audited the project in November 1999. William B. Hurlbut edited the report. Janice Burner assisted with data management and Romayne Pereira provided administrative support.

Principal Ratings

Municipal Sector Investment Project (Loan 3507-TUN)

	ICR	ES	PAR
Outcome	Satisfactory	Satisfactory	Satisfactory
Sustainability	Likely	Likely	Likely
Institutional Development	Substantial	Substantial	Substantial
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

Key Staff Responsible

	Task Manager	Division Chief	Country Director
Appraisal	Bernard Veuthey	Amir Al-Khafaji	Pieter P. Bottelier
Completion	Francois Amiot	Jean Claude Villiard	Christian Delvoie

Preface

This is a Performance Audit Report (PAR) on the Tunisia: Municipal Sector Investment Project (Loan 3507-TUN)—locally called PDM-I—for which the World Bank approved a loan in an amount of US$75 million on July 2, 1992. The loan was closed 16 months *ahead* of schedule on August 19, 1998. Although not foreseen at appraisal, there was US$3.4 million cofinancing of the project by USAID. Counterpart funding by central government was US$76.1 million and by municipalities US$58.4 million.

This report is based upon reviews of the Implementation Completion Report (ICR), the Staff Appraisal Report (SAR), Legal Documents, project files and discussions with Bank staff involved with the project. OED fielded a mission to Tunisia in November 1999 to review the project results on the ground. The mission visited central government departments and project agencies in the capital Tunis, and also local authorities, project sites and neighborhood communities in the cities of Kasserine, Ariana and Monastir. The audit mission gratefully acknowledges the courtesies and attention given by all its interlocutors. In particular, the mission owes a special thanks to staff of what is simply known in Tunisia as the *'Caisse'*, the Municipal Funding and Support Agency – CPSCL, for their kindness in assembling and sharing extensive municipal finance data for the period of the project.

The audit aimed to build upon OED's recently published impact evaluation report *Developing Towns and Cities: Lessons from Brazil and the Philippines*, to determine whether institutional development impact of municipal development programs identified by that study are also applicable to other regions, North Africa in this case. The PAR indeed did find similar evidence in Tunisia. Beyond ICR lessons that identify the need for a strategic context for this kind of project; strong political will as a necessary condition for reform; and caution not to over-estimate local government capacity for change, the PAR highlights other sector issues relevant for Tunisia and elsewhere. They include: (i) a more explicit focus upon the poor; (ii) looking beyond project outputs toward development outcomes; (iii) maintenance as a key to sustainable results; (iv) municipal capacity building has no single blueprint and has to be tailored to the specific needs of individual cities; and (v) the need to find out more what was *learned* by stakeholders through the project.

Following standard procedures, copies of the draft PAR were sent to the concerned government officials and agencies for their review and comments. Comments received are attached—in English language translation—as annex B together with a translation of the conclusions of the borrower's ICR, to which the comments also refer.

1. Introduction

1.1 For more than 25 years Tunisia has been an active partner of the Bank and other donors in urban development.[1] For demonstrating how intensive sector dialogue can presage successive innovations in urban development practices over a sustained period, this partnership carries far more weight than Tunisia's urban population of only 5.3 million would suggest. Tunisia has also been also a good client of bilateral donors, particularly USAID, which operated its Regional Housing and Urban Development Office (RHUDO) in the country for 20 years during 1977-97.[2]

1.2 Continuing the tradition of experimentation and innovation, the Tunisia: Municipal Sector Investment Project—known locally as PDM-I—systematically shifted implementation responsibility on to the shoulders of municipal governments for the first time in Tunisia's traditionally highly centralized structure of government. On paper, however, local governments had long had urban development responsibilities. A basic law, the *Loi Organique des Communes* spelled them out as early as 1975. But in practice municipalities (i.e. *communes*) did not have the resources and central government did not possess the will to allow autonomous *local* decisions about *local* urban development. Even by 1987, when *Programmes d'Investissement Communal (PIC)* were first incorporated into Tunisia's national development planning, municipalities merely executed plans handed down from a higher level. Thus, PDM-I was innovative in casting local administrations in the role of urban development agencies.

1.3 There were plenty of municipalities to fit the bill. Altogether, Tunisia has 257 of them, from the capital Tunis with 700,000 inhabitants ranging over a smooth continuum of city size down to 50 small settlements with less than 5,000 residents. PDM-I planned to work with all cities.

2. Project Design and Implementation

2.1 While innovative for Tunisia itself, the design of PDM-I was based upon a classic formula of municipal development project first supported by the Bank in Jordan as long ago as 1979 and many other countries since.[3] Municipal development experience of the Maghreb countries of North Africa was disseminated through a seminar held in Tunisia by Dutch technical assistance in 1988. Political support from the highest levels—the country's President and Minister of Planning—endorsed centralized Tunisia's entry into the municipal development business. On its side, the Bank could marshal experience from other countries—notably Brazil and Morocco—to assist project preparation. Subsequently, elements of Tunisia's own PDM-I experience later helped develop a similar approach for an operation in Côte d'Ivoire.

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1. To date, six urban projects partly financed by Bank loans totaling US$225 million have been completed. They covered metropolitan management, low-income settlement upgrading, sites and services, housing finance and most recently municipal development. Performance has been mixed, with four of the six projects thus far rated satisfactory.

2. USAID approved eight housing guarantee projects to a value of US$158 million. For most of the past decade, Bank/USAID relations in Tunisia were close, thanks to the support of the Tunisian government and to staff continuity and inter-personal skills on both sides.

3. The first operation was the **Jordan: Cities and Villages Development Project (Loan 1826-JO)** rated satisfactory by OED. The Bank financed 17 other projects in Brazil, Argentina, Bolivia , Philippines, Honduras, Chile, Mexico, Nicaragua, Senegal, Morocco and Korea. A recently published OED impact evaluation reviewed four of these projects; see: Kyu Sik Lee and Roy Gilbert **Developing Towns and Cities: Lessons from Brazil and the Philippines** Operations Evaluation Department, The World Bank, Washington D.C. 1999.

2.2 Following a standard design for this kind of operation, PDM-I on-lent most project funding through a central agency to finance municipal urban infrastructure investments—low-income neighborhood upgrading, urban streets, markets and municipal facilities. In this case, on-lending was entrusted to Tunisia's parastatal Municipal Funding and Support Agency, the *Caisse des Prêts et pour le Soutien des Collectivités Locales (CPSCL)* linked to the Ministry of the Interior (MOI). To qualify for PDM-I funding, municipalities had to meet eligibility criteria for their creditworthiness and their priority projects. At completion, nearly all project funding—99.4% of the total—was disbursed for loans to municipalities to finance physical investments in this way.

2.3 The small amount of remaining project funding—US$1.2 million—was spent upon technical assistance to municipalities and to the CPSCL itself. This included training local government staff in municipal budgeting and finances in particular. Although spending on this component was considerably less than planned—US$7.7 million was the appraisal estimate—PDM-I's intended institutional development activities were fully funded from alternative sources.

2.4 Although preparation was lengthy, the project was completed 16 months earlier than expected and original loan amounts were fully disbursed as planned. A single task manager oversaw most of the project from identification in early 1987 until mid-1996, a period of nearly 10 years. The borrower greatly appreciated this Bank staff continuity, which some Tunisian officials felt has been since lost.

2.5 For a borrower within a straightjacket of centralization, but wishing to move forward with decentralization, and for the Bank wishing to extend its lending to the hinterland, PDM-I's objectives were timely and relevant. They were to: (i) strengthen CPSCL; (ii) improve municipal provision of basic services; (iii) increase the capacity of local municipal governments to fulfill their urban development responsibilities and increase their own resources. This report considers project results and development outcomes related to each of these objectives in turn.

3. Strengthening the *'Caisse'*

3.1 Strengthening the Tunisian state's Municipal Funding and Support Agency (CPSCL, or simply the *Caisse*) was amply achieved. In 1975, the *Caisse* was nothing more than a cash window for funneling ad hoc central government grants to municipalities. In 1991, just before PDM-I, MOI still determined the lending policy and conditions of the *Caisse*. While continuing to be governed by a board presided over by MOI, the *Caisse* gained considerable autonomy through PDM-I. It can now fine-tune lending policies that ensure the financial sustainability of its operations. The principle of cost recovery was central to this approach. The follow-on PDM-II has a more ambitious agenda, foreseeing the *Caisse* in the role of development bank in the municipal market. The Tunisian authorities have been cooler to this idea than the Bank, but past experience of the creative partnership with the Bank indicates that, through innovation, the strategy will continue to evolve.

3.2 CPSCL was strengthened through PDM-I technical assistance and training through PDM-I, but also through the bilateral assistance of the United States, France and Italy. Understandably, the Tunisian government itself preferred to use grant funding from these donors than be encumbered with additional debt obligations through borrowing through PDM-I. For the *Caisse* the source of funding made little difference to the outcome. The *Caisse* became an agency whose primary concern was the economic and social development of its municipal clients with in-house capabilities to analyze and evaluate the quality of investment proposals received. Helping municipalities develop high quality investment proposals became a key concern of the *Caisse*. This included helping municipalities understand a basic rule of sustainable municipal development, namely paying one's way, and especially meeting loan obligations. Tunisian interlocutors at the levels of national and local governments described this as a 'disciplining function' of the *Caisse*. Cost recovery is a key to the sustainability of this relationship and of the *Caisse* itself. Thus far, cumulative arrears have not exceeded 6% of amounts due from municipalities. Continued success is contingent on not allowing arrears to exceed this amount.

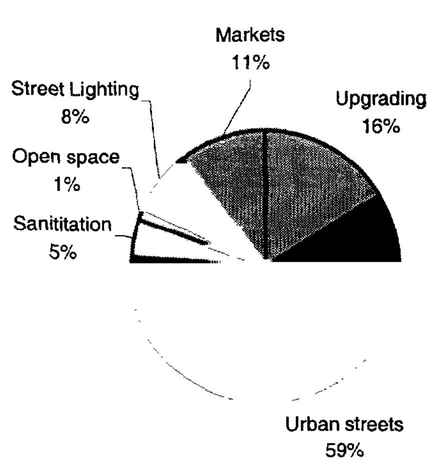
3.3 On-the-job experience enabled the *Caisse* become a more efficient administrator, halving the time it took to process and approve municipal loan applications. Another achievement of the *Caisse* and indicator of its institutional maturity, is that it assumed the responsibility as borrower of the Bank loan for PDM-II. Under PDM-I, the government had been the borrower.

3.4 Still, the *Caisse* can do more to become a repository of municipal development knowledge in Tunisia. Its already effective MIS—which among other things provided the municipal finance data for this evaluation—can be enriched by measuring municipal development outcomes, thereby allowing monitoring of poverty impacts of municipal development projects and programs presented for financing.

4. Strong Demand for Urban Streets, Upgrading and Markets

4.1 The most popular municipal investments financed by PDM-I were urban streets, followed by upgrading of low-income areas and municipal markets. Demand was less buoyant for street lighting, sanitation and open-space investments (Fig 1). The audit mission went into the field in order to assess on the ground the impact of investments such as these in the three cities visited.

Fig 1 PDM-I Investments by Sub-Project
(share of total cost)



4.2 In **Kasserine** works done in the upgraded areas—especially the 'Ezzouhour' district of town—were of high quality and, most significantly were in kept in good condition and well maintained. Improved streets led to better access and drainage. Local residents interviewed by the mission confirmed that these really had improved in their areas. Local democracy and community participation seemed to have paid off. Greater community involvement can increase the willingness of beneficiaries to indirectly bear some of the costs of project investments.

4.3 In **Ariana**, a city with a more solid economic base and easier access to funding for municipal investments, exercised less care in the operation and maintenance of the built facilities. By creating a notion that the replacement of broken or poorly planned infrastructure can easily be financed, abundant revenues can sometimes induce complacency toward the maintenance of existing assets and their correct planning in the first place. In the El Mansoura I and II upgrading areas in Ariana visited by the audit mission, for instance, maintenance had been neglected. Drains had not been cleaned, broken street paving left unrepaired and strewn garbage undermined the initial sanitary improvements wrought by the project. From the reactions of local officials present, it appeared that they were not all fully cognizant of the deteriorated condition of these works. In another case, the audit mission observed poor project planning where a one kilometer stretch of recently built urban highway (*Rue de l'Aéroport*) had been seriously damaged—to the point of being unusable at the time of the mission's visit. Works undertaken by the state sanitation agency immediately after the completion of the PDM-I investment caused the damage. Better project planning at the local level would have better coordinated the two investments. What remains is for the municipality to seek compensation for the extra costs of repair and reconstruction that will be necessary.

4.4 Urban services provided in **Monastir** through PDM-I were more varied than in the other two cities visited. They did not include upgrading components, however, probably because of the relatively few poor people living in this prosperous urban center. On the other hand, the project brought improvements to many urban streets, many of which were given proper public lighting for the first time. Investments were made too in basic sanitation that was seriously inadequate in an important tourist center. The works visited by the audit mission, notably in the city's commercial complex and the El Faouz neighborhood were of a good standard and were being properly maintained. Altogether, they contributed to a cleaner and more attractive aspect of a historical town that is visited by many foreign tourists every year.

5. Municipal Resource Mobilization and Capacity Building

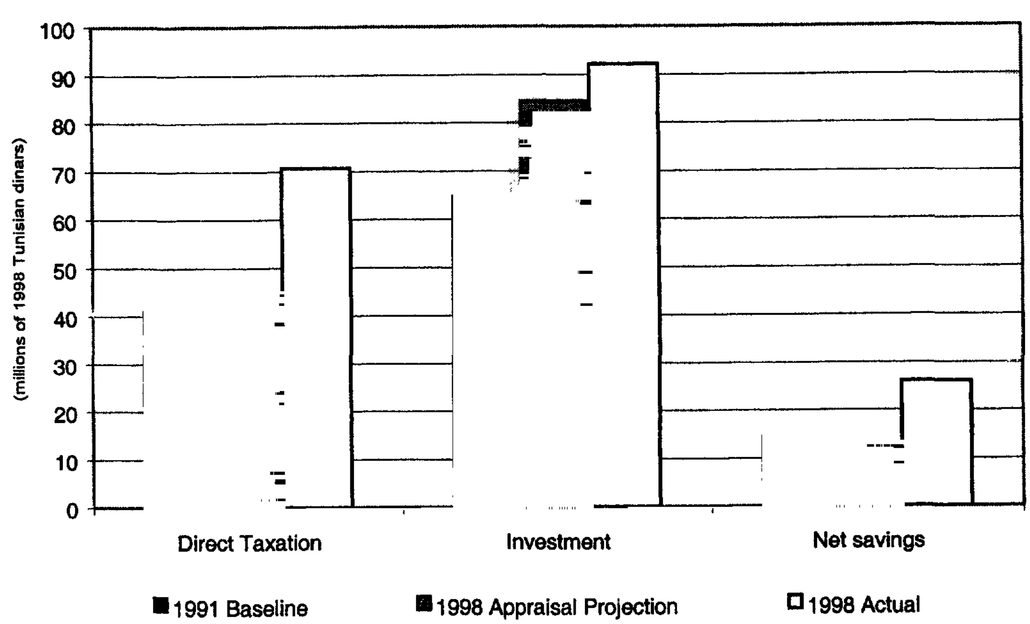
Mobilization stronger than expected

5.1 Indicators of municipal finance in Tunisia point to cities far exceeding the expectations that the PDM-I project placed upon them with respect to resource mobilization (Fig. 2). The satisfactory results are likely to be the outcome of many efforts at the city level itself, since sector-wide reform was stalled throughout the 1991-98 period under review. Appraisal projections themselves were bullish, since they were based upon an assumption of 5% annual GDP growth during project implementation. Actual growth—which lies behind the actual financial results achieved—was somewhat less at 4.7% per annum. Even so, direct taxation grew significantly, outstripping project design projections. While municipalities themselves do not set rates of the two principal taxes (*taxe locatif* - rental tax and *taxe de collectivités locales* - business tax) nor administer their collection—things done in partnership with local MOF representatives who are often housed within city hall—they can affect coverage and stringency in collection. Municipalities want to improve direct tax collection to mobilize more resources for many reasons, not least of all to help them repay PDM-I loans made to them. Local officials made this clear to the audit mission during field visits.

5.2 More PDM-I resources for Tunisian municipalities enabled them to finance more investments to a slightly higher level than PDM-I's forecast expectations (Fig 2). This was satisfactory result demonstrating that project funds did make a difference to municipal capacity to invest. On the other hand, there is little evidence that municipalities financed significant additional investments from other sources that those of the project itself.

5.3 Net savings—estimated in Tunisia as current revenues *minus* current expenditure *plus* interest payments of debt service—increased considerably during the implementation of the project, reaching twice the level expected in 1998 in real terms (Fig 2). Among other things, this is a good indicator of fiscal prudence by the cities themselves, even if it meant they were unduly cautious in not investing more. Participating in the PDM-I project itself is an incentive for such prudence. Periodic loan repayment schedules constantly remind municipal administrators to set aside resources to service their debts and maintain their good credit rating. Threats of cutting off delinquent municipalities from new credit can also be effective, but only it action follows words. Contrary to good banking practice, continuing to lend to cities that fail to service existing debt and rescheduling outstanding obligations, especially of powerful municipalities, can undermine the credibility of the entire lending regime. Good municipal customers—who make up the majority and regularly repay their debts—may themselves be tempted to default if they perceive other defaulters suffer no sanction. By building up net savings, Tunisian municipalities are demonstrating that—as a whole—they are financially able to repay their debts, and therefore should always do so. The follow-on PDM-II project provides an important opportunity for the government and the *Caisse*, with the support of Bank supervision missions, to ensure that the rigorous enforcement of loan repayment conditions by municipalities continues. The ongoing Bank-Tunisia partnership in this way helps ensure the sustainability of the PDM-I project that might otherwise be uncertain.

Fig. 2 Tunisian Municipalities: Financial Indicators



5.4 Fiscal prudence saw annual current revenues rise much faster than current expenditures over the 1991-98 period, by 28.3% against 16.8% respectively. Extra revenues did not translate therefore into financial profligacy. Current expenditures—that include payroll, of course—rose less than forecast at appraisal: TD178.1 million actual in 1998, against a projected TD184.0 million for that year.

Greater impacts in larger cities

5.5 Since the participation of a municipality in PDM-I funding was demand-driven by the city itself, lending across cities was not pre-assigned and the project design did not foresee a particular allocation of funding by type of city. For that reason, the final allocation at completion reflects the interests of the municipalities themselves, their creditworthiness and the eligibility of their own project proposals. Just as an even funding assignment across cities was not expected, project impacts were not expected to be even among cities of different sizes. To review their distribution, Tunisian municipalities were grouped into four size categories according to their urban population in 1998 (Table 1).

Table 1. Tunisia: PDM-I Project Lending and Direct Tax Gains by City Size

	Number of Cities	Urban Population	(millions of TD)		(TD per capita)	
			PDM-I Lending 1992-98	Direct tax gain 1998	PDM-I Lending 1992-98	Direct tax gain 1998
Tunis	1	700,076	21.6	2.6	30.8	3.7
Large Cities (51-250K)	21	1,917,927	54.2	8.3	28.3	4.3
Medium Cities (11-50K)	92	2,056,785	62.8	6.4	30.6	3.1
Small Cities (1-10K)	119	627,679	34.3	1.5	54.6	2.4
TOTAL	233	5,302,467	172.8	18.8	32.6	3.5

Source: CPSCL MIS

5.6 Tunisia's 21 largest cities, plus the capital Tunis itself, account for 49% of the urban population of the country, 44% of PDM-I lending and 58% of the direct tax gain in 1998. The project buck had a bigger bang in larger cities as far as direct tax gains were concerned. Every TD100 of project lending in large cities was associated with TD15.3 annual tax gains by project completion. The same amount of lending to small towns was associated with only TD4.4 annual gains in taxes. In per capita terms, the results demonstrate economies of scale of larger cities whose overhead costs of governance improvements are proportionately lower. Clearly, if the primary aim were purely to raise more revenue, it would pay to concentrate upon the large cities, which, after all, are home to half the urban population of the country. [4]

5.7 Measured in per capita terms, direct tax gains illustrate the different fiscal impacts across cities, with nearly twice the gain in large than small cities. Although medium and small cities did not reach the same collection level as large cities, they did accelerate collections more rapidly than large cities, albeit from a lower base. Thus, while direct tax collections per capita in large cities in 1998 were 89% higher in real terms than in 1991, the equivalent increases for medium

4. These cities, from largest to smallest are: Sfax, Ariana, Etadham, Sousse, Kairouan, Bizerte, Gabes, Benarous, Bardo, Gafsar, Kasserine, Zarzis, Goulette, Fouchana, Jrbahsk, Marsa, Beja, Msaken, Monastir, Tataouin, and Mzbourg.

and small towns were 128% and 149% respectively. Clearly, medium and small municipalities benefited from the project, but they started from way behind the larger ones.

5.8 PDM-I lending itself measured in per capita terms—in the TD28-31 range for most—was substantially higher for small cities, making the project an excellent vehicle for diversifying Bank assistance away from the traditional main city beneficiaries.

Capacity building seen on the ground during audit field visits

5.9 For their significant participation in the project, the audit mission chose three large cities for field visits to review capacity building achievements as well as infrastructure improvements. They were: (i) Kasserine (pop. 73,523) located in a poor semi-arid region near the Algerian border some 250 kms south-west of Tunis; (ii) Ariana (pop. 165,453) part of metropolitan Tunis; and (iii) Monastir (pop. 54,452) a prosperous historic center and tourist resort some 150 kms. south of Tunis.

5.10 In **Kasserine**, local officials emphasized community participation as a key addition to municipal capacity acquired through PDM-I. The project required that potential municipal borrowers consult the local population to determine priorities for lending and investment. In response to this, the municipality of Kasserine invited 50 community leaders (*chefs de cellule*) to propose and discuss investments for their neighborhoods. According to local officials, a genuine consultative process with local residents has become standard practice in Kasserine as far as municipal spending decisions are concerned. PDM-I requirements helped city officials adopt these procedures. Conversations with project beneficiaries during site visits by the audit mission confirmed that local residents had been familiar with most aspects of planning and implementing improvements in their areas. No doubt, this kind of dialogue also made it easier for city officials to explain to their citizens the need for some cost recovery to help pay for necessary investments. The fiscal outcome was clear. Nearly twice as much direct taxation was collected in Kasserine after the project as before, notwithstanding the continuing weak economic base of the city.

Box: Substantial Institutional Development Impact Rating – What was achieved and how

Different cities focused on widely different things, ranging from community participation to staff training and contracting out services.

PDM-I project provided three things to help municipalities change:

- Rules, such as required public consultation.
- Optional facilities, notably training provision.
- Incentives for greater efficiency (to use opportunities for increased investment).

Subject to basic project rules, PDM-I's demand-driven approach allowed cities to focus primarily upon ID improvements that interested them most and where they felt they could do a particularly good job.

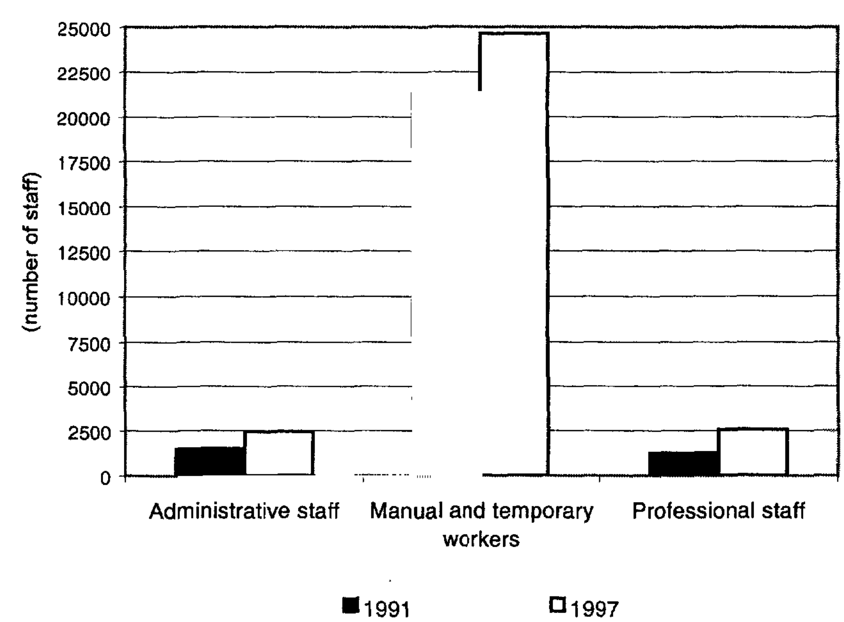
5.11 Local officials in **Ariana**, a more prosperous town in the Tunis metropolitan area, reported more capacity through training provided by PDM-I. It helped their officials better understand the requirements for efficient tax administration and budgeting. This training was mostly in courses run by the municipal training center established under PDM-I, the *Centre Nationale de Perfeccionnement et de Recyclage des Cadres Régionaux et Municipaux* or CNPRCRM. The city became one of main PDM-I project players, investing TD10.4 million over the 1992-98 period. In per capita terms, it was among the top ten of Tunisia's best tax collecting districts. In municipal service provision, however, Ariana had shortcomings in planning and maintenance that are discussed in the next section.

5.12 Capacity building in **Monastir**, the most prosperous of the three towns visited, took the form of greater municipal outreach and partnerships. In particular, the city contracted out planning and design work that, before PDM-I, had always been done in-house. Again, municipal officials cited training provided under the project as aiding such a shift in approach. PDM-I itself provided opportunities to contract out specialized services. To do this fairly and efficiently, the municipality consolidated its own *Commission de Travaux* to adjudicate the award not only of works contracts, but consultants' services too. It was a key step in decentralizing an activity that until 1996 had been the responsibility of the central government's *Ministère de l'Équipement.* Municipal financial autonomy, grounded in the prosperity of the town itself, grew in Monastir under PDM-I, as illustrated by the share of municipal revenues derived from local taxes. In 1991, it was 29.6%. By 1998, it had risen to 38.1%.

Better quality municipal staffing

5.13 Greater municipal responsibilities under decentralization and more complex tasks meant a larger and better trained municipal workforce after PDM-I (Fig. 3). With only five staff per 1,000 urban inhabitants, municipal staffing in Tunisia is still at a low level compared with many other countries. Professional staff grew most rapidly, more than doubling during 1991-97. In 1997, they outnumbered administrative staff for the first time. Manual and temporary workers, while still constituting the majority, increased much more slowly. Altogether, municipal staff grew by 23.3% during 1991-97, approximately the same rate as payroll costs which municipalities kept under control.

Fig. 3 Tunisia: Municipal Staff



5.14 Through the creation of and subsequent support to the National Training Center for Regional and Municipal Staff (CNPRCRM) PDM-I helped build an agency that would stimulate investment in the quality of human capital available to local governments. As planned under the project, CNPRCRM began activities in 1995 and is now fully operational providing more than 123 intensive training sessions a year open to staff from any municipality. [5] Municipal demand for this training—confirmed by statements by local officials to the audit mission in the field—is confirmed by municipalities' willingness to pay. By 1998, local governments had paid TD320,000 to the center for its training services. This cost recovery has made the center more

5. A recent study reviewed the activities of CNPRCRM in detail. Its conclusion that the center had been successful in its mission thus far has become a key input into the strategy for continuing Bank support under PDM-II. See: **Evaluation des Activités du CNPRCRM** prepared by Jean-Michel Lebtreton July 2, 1999.

autonomous financially. It represents a break from the past when it was initially set up within MOI and dependent upon the nation's budget just like any other government department.

5.15 One of the reasons for the strong demand for the center's services is that the training program and its content were based upon extensive consultations with the municipalities themselves. It was not imposed top-down. CNPRCRM sent questionnaires to all municipalities asking about priorities for training, from their point of view. Nearly 95% of them responded. The most popular training, by far, was municipal financial analysis. This coincides with the local officials' opinion expressed to the audit mission.

5.16 Clearly more can still be done. The center now has the chance to take advantage of its 'bureaucratic lightness' and pursue an outward-looking training strategy that exploits the best training possibilities available in both the public and private sectors. A key ingredient, with the help of the Bank, would be exchanging experiences with other countries and companies that are knowledgeable in this field.

5.17 The follow-on PDM-II project[6] provides a valuable opportunity to continue assistance to CNPRCRM so that it can meet the increasing demands that will be placed upon it. Appropriately, the design of PDM-II foresees the center preparing a training strategy for the period 2000-2003. At the time of the audit, this had yet to be done, however. As mentioned earlier, the strategy is likely to be an outward looking one. It will need to harness the success of the participatory consultations pursued thus far. But past success might bring the price of rapidly growing demand that the center by itself will not be able to meet. Hence the need to harness the contributions of other sector experts and fully explore the exchange of experiences both within Tunisia itself and beyond the country's borders.

6. Conclusions and Lessons

Ratings

6.1 The audit agrees with the ICR ratings that the project outcome was **satisfactory**, sustainability is **likely**, and institutional development impact **substantial**. A likely sustainability rating is possible as the ongoing PDM-II project will ensure continued close monitoring of municipal loan repayment. Without PDM-II, sustainability would have been uncertain, in view of a few reported cases of undue leniency in debt re-negotiation. Full and timely loan repayment under agreed conditions is central to the long-term sustainability of an operation like this.

Explicit focus upon the poor is needed

6.2 Amid so many satisfactory outcomes of this project it is disappointing to observe a lack of clear focus in design and implementation upon poverty reduction.[7] Although much has been achieved in Tunisia, poverty reduction remains an important challenge for development

6. **Second Municipal Development Project (Loan 4202-TUN).**

7. This issue was also highlighted by: Osmont, **Annik La Banque Mondiale et les Villes: du Développement à l'Ajustement,** (date: 1995) especially, Chapter 5 entitled 'La Tunisie,lieu privilégié de la rehabilitation.'

authorities in the country.[8] Among other things recommended by the Bank's 1995 poverty assessment in Tunisia was a call for expanded infrastructure in poor areas and continued monitoring of improvements. Outside this framework, some PDM-I project investments, notably urban streets, were made in some middle to higher income areas. Several project interlocutors on-site were unfamiliar with the Bank's mission statement highlighting the struggle against poverty, and hence saw no contradiction in investing in high-income areas. To help remedy this, appropriate next steps might include:

- Future operations should have objectives that explicitly and specifically target the poor and should include a campaign of disseminating this priority among municipalities during the first six months of implementation.
- Reinforce work on consultation and participation with poor communities that was successfully begun in Kasserine.
- As per the government ICR, help local authorities through projects such as PDM-I and PDM-II to encourage small businesses, especially in residential areas where zoning laws might need to be revised to accommodate them.

Looking beyond project ouputs toward development outcomes

6.3 This is an extension of the previous point. Having successfully demonstrated an ability to generate satisfactory results, it is necessary for designers and implementers of municipal development projects of the PDM-I and PDM-II type to go one step further and ask key questions about the development impact of these operations. For example, what does increased resource mobilization by a municipal administration mean for local economic and social development? How does an increased quantity of paved streets improve the quality of life of the poorer citizens in Tunisia's urban areas especially? The following steps may help answer questions such as these:

- Document clearly the baseline development conditions of municipalities at the outset.
- Introduce measures of development outcomes in a project's MIS.
- Develop a feedback mechanism to allow municipalities to routinely report improvements on the ground.
- More emphasis on rigorous and accurate economic evaluation of project investments.

Project operation and maintenance has to be a priority for sustainable results

6.4 The lesson is simple. Without maintenance, project facilities will deteriorate to the point of ceasing to yield benefits. Their premature replacement would heavy costs upon the local authorities responsible. Among steps that could be taken:

- Require municipalities to present an acceptable maintenance plan and how it will be monitored with each loan application.
- Condition future loan approvals to municipalities on good maintenance of existing facilities, as demonstrated by systematic monitoring reports.

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8. Bank estimates of 1995 found that 7% of Tunisia's population is poor (**Tunisia: Poverty Alleviation: preserving progress while preparing for the future 1995** - Report number 13993). UNDP's composite Human Poverty Index for the country—that takes life expectancy, access to sanitation and health into account—was estimated at 23.1% in 1997, a level similar to some other countries in Asia and Latin America which have much lower levels of per capita GDP (see: UNDP **Human Development Report 1999**).

Continue pursuit of municipal reform

6.5 Sector reform is a long-term process that can rarely been achieved through one operation alone. In that context, PDM-I and PDM-II represent a consistent sequencing of reform instruments. PDM-I initiated reform, while primarily building up the capacity of municipalities to provide urban services to their constituents. PDM-II could naturally build upon that foundation to urge municipal leaders and managers of municipal development to focus upon the development outcomes of their efforts. Among priority actions needed now:

- Hold regular discussions and forums to focus local officials' attention upon development outcomes—especially benefiting the poor and to discuss and disseminate achievements made.
- Introduce larger municipalities to the responsibilities of fully administering the collection of their own taxes.
- Continue the dialogue at the national level to rationalize local taxes, gradually transferring responsibilities to local authorities.

Municipal capacity building can and should be allowed to take many forms

6.6 Different cities visited by the audit mission built up their capacity in different ways according to their particular interests. Capacity building ranged from greater community participation in determining municipal investment priorities, to staff training related to municipal budgeting and finance and contracting out services formerly done in-house in order to have capacity to seize the extra funding opportunities for increased investment presented by the project. Future actions that might help sustain this diversity and relevance would include:

- Project rules that make clear what minimal capacity building achievements are expected (related to loan repayments and public consultation, for instance).
- Provision of access to a range of technical assistance and training facilities that municipalities have the option to participate in.

Basic Data Sheet

MUNICIPAL SECTOR INVESTMENT PROJECT (LOAN 3507-TUN)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of Appraisal estimate*
Total project costs	207.7	209.6	100.9
Loan amount	75.0	75.0	100.0
Cofinancing	0	3.9	-
Cancellation	0	0	-
Date physical components completed	12/31/99	08/19/98	
Economic rate of return	12%	N/A	

Cumulative Estimated and Actual Disbursements

	FY93	*FY94*	*FY95*	*FY96*	*FY97*	*FY98*	*FY99*
Appraisal estimate (US$ thousands)	7.5	6.8	8.3	10.6	13.5	18.8	9.5
Actual (US$ thousands)	3	10.37	35.22	15.95	10.22	0.13	0.11
Actual as % of estimate	40%	152%	430%	152%	76%	0.7%	1%
Date of final disbursement	August 1998						

Project Dates

Steps in project cycle	*Date planned/*	*Date actual*
Identification	NA	12/01/87
Preparation	NA	01/29/90
Appraisal	NA	10/20/91
Negotiations	NA	05/11/92
Board presentation	NA	07/02/92
Signing	NA	10/07/92
Effectiveness	NA	04/22/93
Loan closing	12/31/99	08/19/98

Staff Inputs (staff weeks)

Stage of project cycle	*Planned (weeks)*	*Actual (weeks)*	*Planned (US$)*	*Actual (US$)*
Preparation	NA	183.3	NA	470,600
Appraisal	NA	24.7	NA	83,100
Negotiation through Board approval	NA	16.1	NA	53,300
Supervision	NA	80.8	NA	282,200
Completion	10.0		29,000	17,500
Total		304.9		906,700

Mission Data

Stage of project cycle	*Month/year*	*No. of persons*	*Staff days in field*	*Specialized staff skills represented*	*Implem. status*	*Develop. Object*	*Types of problems*
Preparation mission	03/87	2	17	UP, FS	-	-	-
	09/87	1	14	UP	-	-	-
	01/88	1	13	UP	-	-	-
	09/88	4	18	UP, FS, ME	-	-	-
	05/89	2	11	UP, ME	-	-	-
	10/89	2	19	UP, ME	-	-	-
	02/90	5	11	UP, ME, FA, ME, PA	-	-	-
	05/90	1	6	UP	-	-	-
	03/91	5	12	UP	-	-	-
	06/91	3	16	UP, FA, ME	-	-	-
Appraisal mission	10/91	4	18	UP, FA, ME, CS	-	-	-
Pre-negotations mission	04/92	2	6	UP, CS	-	-	-
Supervision mission	11/92	3	11	UP, ME, FA	1	1	Municipal staff training program needs more dynamic preparation. The local tax reforms is 6 months late.
Supervision mission	04/93	2	21	UB, FA	1	1	Municipal staff training program needs more dynamic preparation. The local tax reform report is 6 month late.
	12/93	2	15	UP, FA	1	1	Project execution is hampered by delays in decision regarding CPSCL staff status. Municipal staff training program needs more dynamic preparation. The local tax reform report is sixth months late.
	11/94	3	17	UP, FA, ME	HS	S	Implementation of the local tax reform delayed,
	03/95	1	13	UP	HS	S	Implementation of the local tax reform delayed.
	06/95	3	14	UP, ME, SFA	HS	S	Implementation of the local tax reform just scheduled.
	01/96	3	16	SFA, ME, UP	HS	S	N/A
	06/96	3	11	E, ME SFA	HS	S	The fiscal reform lags behind the original planned scheduled.
	06/97	1	13	ME	S	S	No substantial progress was made with the land information.
	12/97	2	11	E, ME	HS	S	
	06/98	2	11	E, ME			

Annex B

Borrower comments on the PAR

(translated from the original in French by Roy Gilbert)

Ministry of the Interior

Municipal Funding and Support Agency (CPSCL)

PDM Project Coordination Unit

Tunis, June 21, 2000

SYNTHESIS OF [BORROWER] COMMENTS ON THE PAR

I. GENERAL OBSERVATIONS

- The PDM-I project has been a catalyst for and platform of [Tunisia's] decentralization policy. The project took the form of a global, coherent and integrated program, consisting of the following:

- an investment component which was part of a much larger municipal investment program which shared PDM-I's eligibility rules and evaluation criteria, as well as all financing conditions;
- an institutional development component including, in particular, restructuring CPSCL, setting up arrangements for training elected officials and professional staff of local governments, whose implementation required mobilizing resources of the Tunisian Government, the World Bank loan, local governments and other bilateral financiers;
- a component to strengthen the management capacity of local government.

- In order to identify the principal sustainability conditions of the project and of the process of municipal development in Tunisia in general, we strongly recommend that you look at pages 31-35 of the government's ICR.

[translator's note: This reference is to the 'Outstanding Issues' section of the borrower ICR, a translation of which is attached to these comments.]

II. SUBSTANTIVE COMMENTS

- para. 2.5: PDM-I's objective was to fund loans conceded to finance certain categories of sub-projects for the whole of Tunisia's 257 local governments and not just those in the country's hinterland.

- para. 2.1: Municipal development experiences had been disseminated through a seminar on development banks organized by IDE and the District of Tunis in 1998 and a seminar on infrastructure finance organized by the Bank, the Ministry of the Interior and CPSCL in 1995.

- para. 2.2: at the end of the project, 99.4% of the total amount of the IBRD loan had been disbursed by CPSCL to finance loans to local governments.

- para. 2.4: this paragraph could reformulated to show the continuity of the Bank task manager from 1987 to June 1995, and of the project coordinator on the government side from 1987 until today. Both [continuities] assured that all project activities were followed up. The borrower regrets, however, the lack of continuity of Bank staff since June 1995.

- para. 3.2: the report explains that the CPSCL benefited from PDM-I support and other bilateral aid from the United States, France and Italy. However, the essence of this assistance was provided by the Tunisian state [itself] to which all subsidies received by CPSCL over the PDM-I period (TD 585,447) are due. In addition, recourse by CPSCL to bilateral programs was only in the form of loans, most of which had better conditions than those offered under the Bank loan for PDM-I.

- para. 4.3: the (report's) observation about the limited interest of the city of Ariana in the maintenance of completed infrastructure is part of the almost natural tendency of a local council to give priority to the creation of infrastructure in zones where it is lacking, rather than reserve their severely limited resources for the maintenance of what exists, a task that should be undertaken with significant beneficiary participation.

- para. 5.2: supplementary resources have been mobilized by the CPSCL within the framework of (Tunisia's) Local Investment Program (PIC) during 1992-96 in an amount of TD 635 million, including TD 222 million related to PDM-I (1993-98).

- para. 5.3 (second half): delays (by local governments) in loan repayments subject to debt re-negotiation represent only 1.8% of all loans made during the 1992-2000 period and, for the most part, concern local governments with structurally weak finances, among whom are some large cities.

- para. 5.5: it is important to make clear that PDM-I's investment component was only a part of PIC. Taking into account PDM-I eligibility requirements, certain towns, especially small ones, could only benefit slightly from the project. These [smaller] towns benefited more broadly from PIC financing. With respect to population, the geographic distribution of PIC investments shows, in effect, a more equitable sharing of financing.

- para. 5.13: during the period of the Eighth Plan, local government personnel increased significantly, but numbers are still below other countries at a similar stage of development.

- para. 6.1: the PAR explains that "without PDM-II, sustainability would have been uncertain, in view of a few reported cases of undue leniency in debt re-negotiation". With regard to this, it is worth noting the following:

- renegotiations of these debts have been undertaken in view of the unbalanced financial situation of the local governments involved. [These imbalances] would not have worsened if PDM-II hadn't existed;
- in present circumstances, and while the rapid and complete recovery of loan repayments due is a necessary condition for the sustainability of CPSCL, it is inconceivable that CPSCL should interrupt its assistance to local governments in difficulties. CPSCL's objective, in fact, is to stimulate investments in all the municipalities of the country.

- para. 6.2: the PAR notes that it is "disappointing to observe a lack of clear focus in design and implementation upon poverty reduction." It appears to us that this conclusion is misplaced, given that PDM-I's objectives—as stated in the Bank's appraisal document of November 1992—were achieved. Furthermore, participants from the field of local development have all agreed to meeting the objectives of national programs aimed at reducing poverty. Some of these programs have been partially financed by the Bank loan for PDM-I and others—including municipal upgrading—have been taken up by the State, with important subsidies.

III. EDITING COMMENTS

[translators note: The borrower kindly pointed out style corrections to the French language version of the PAR and numeric errors that have been corrected in the final PAR presented here]

Director,	Director General
PDM Coordination Unit	Municipal Funding and Support Agency
Ministry of Interior	- CPSCL
(original signed by:)	(original signed by:)
Néjib TRABELSI	Mabrouk MEJRI

(Conclusions of Borrower ICR – translated from original in French by Roy Gilbert)

1. MAIN ISSUES UNRESOLVED BY THE PROJECT

The relatively quick rhythm of implementing various project physical components (investments, studies, technical assistance and training, provision of goods and equipment...) and the relative slowness of introducing certain reforms foreseen by the project, have left many key issues still unresolved, notably:

a) The development of municipalities' financial resources:

Delay in the new local taxation code coming into force and the slow FCCL transfers to municipalities, together with the very strong growth of local investments between 1992 and 1996 (PIC of more than TD 600 million, against less than TD 300 million during 1987-91) and the growth of the urban population leads only a certain number of municipalities to ask themselves questions about the evolution of their [own] financial situation. Even that is in spite of significant assistance provided to [help them] mobilize their own resources.

b) Human resource development in municipal administrations

In spite of all the new laws and regulations and other steps to help local governments to directly recruit professional and administrative staff they needed, their human resource development is still short of the objectives laid down by PDM-I.

c) Some acute difficulties encountered by the supervisory structures of local government in anticipating, preparing and effectively managing reforms and other strategic activities of PDM-I:

In spite of the importance—number, variety and volume—of institutional support activities (studies, training, provision of computer and administrative equipment..) undertaken in relation to PDM-I, the central government supervisory structures of municipalities (DGCPL and DGAR of MOI, DGCP of MOF) were unable to avoid delays to numerous reforms or strategic activities of PDM-I, or even not undertake them at all, such as:

i. recasting the local taxation code,
ii. revising criteria for sharing the Common Fund for Local Government (FCCL),
iii. revising municipal budgetary and accounting nomenclature,
iv. improving the system for financing urban infrastructure and services, and mechanisms for cost recovery and related matters,
v. elaboration of municipal performance indicators,
vi. elaboration and dissemination of a manual of municipal procedures,
vii. establishing and operating a municipal data bank,
viii. etc.

The sustainability of the process of decentralization embarked on by the [Tunisian] Government of the New Era through PDM-I will probably depend upon the pertinence and speed of elaborating and implementing a specific program of upgrading central [government] structures responsible for the oversight of local government, targeted upon strengthening their institutional, human and technical capacities to support municipal and regional development more effectively.

d) A certain fragility of the training system put in place within the [Ministry of Interior] Directorate of Local Government:

PDM-I laid the foundation for an effective and permanent training system for elected officials, and professional and other staff at the municipal and regional levels. The sustainability of the system, still in its consolidation phase, will probably depend upon its capacity to evolve toward a better recognition of objective and priority needs, to assure quality supply adapted to these needs, and to guarantee its own financial sustainability within a perspective of greater freedom by municipalities themselves to choose training agencies—public and private—that best meet their specific needs. It also has to institute a reliable system to evaluate the impacts of the training itself, as well as the performance of agencies responsible for that training.

e) Continuing fragility of the system of planning, programming , financing and monitoring local and regional investments:

PDM has surely bequeathed a reliable and relatively effective system of planning, programming and financing municipal investments. However, to assure its sustainability, this system should not only take better account of risks inherent in the recent evolution of local finances and the financial balances of the municipalities and CPSCL, but also ensure the growth of its capacity to adapt to a new financial context where local governments will have greater freedom and responsibility over the choice of investments and the borrowing policy.

With respect to this, special interest could be shown to certain technical aspects that take on a strategic dimension, such as:

i. keeping high quality standards as a requirement for engineering studies of investment projects, through preparing manuals for bidding documents—requiring specialized consultants to prepare them, and better dissemination and use of the facilities and financing available for the preparation of quality studies,

ii. control of costs, of delays and implementation quality of investment projects, with the important role devolved to the regional offices of CPSCL in monitoring the quality of studies and implementation plans, and actual disbursements against the resources allocated for project finance (mobilization of own resources after firstly managing loans and subsidies better),

iii. encouraging local governments to prepare and implement plans, programs or projects to maintain existing infrastructure, and through the multiplication of technical assistance activities (provision of model programs, case studies and pilot operations) and training in regions and cities concerned.

2. CONSOLIDATING PDM-I ACHIEVEMENTS: ASPECTS INTEGRATED INTO PDM-II

In particular, these concern:

a) **Greater mobilization of own resources by municipalities**, adapted to the evolution of their responsibilities and the needs of the growing urban population. Obtaining a significant, stable and predictable level of own resources requires an effort supported by and built around the effective application of the new local tax code and the evaluation of its impacts, improving tax collection and other existing revenues due from asset management and service provision, and, as the case arises, consolidating the financial autonomy of municipalities through instituting the transfer of new taxes and user charges for the benefit of municipalities and regional councils,

b) **Reforming the present system of financial transfers by the State** in order to help in particular those municipalities with only a limited potential to generate their own revenues or those in particular difficulties to ensure a minimum level of infrastructure services, especially in low-income zones.

c) **Consolidating and broadening the system of financing local government investments** as well as strengthening the intervention capacity and means of the principal agency responsible for local development, namely the CPSCL. This includes the eventual transformation of this organization into a financial institution able to provide a wide range of products adapted to the evolving needs of local governments, as well as community organizations and other public and private stakeholders—agencies dependent upon or associated with local governments, or working on their behalf—directly concerned with local development.

d) **Research into complementary or alternative solutions for human resource development in and around local government**, including, in particular, making the local government training system permanent. Also, pursuing efforts to recruit more professional staff for municipalities, quality improvements to local staffing through better training and information, as well as making elected officials more aware. In addition, greater recourse to remunerated services of consultants, and specialized municipal engineers should be looked into.

e) **Strengthening, accelerating, opening up and adapting programs aimed at upgrading local government within their own local environment** (oversight management, private sector, associations of local development, community organizations) and including in particular, the development or progressive generalization of pilot experiences, duly evaluated, including:

i. the development of certain rural agglomerations (financing basic infrastructure + preparing land-use plans + strengthening human, technical and logistical capacities of certain rural councils),

ii. support, sustainability and replication of actions or particularly successful [best-practice] projects, initiated or implemented by community organizations (neighborhood committees, condominium groups, associations) in partnership with local governments that partially finance small projects for improving the immediate environment and living conditions of people in the neighborhood or buildings concerned,

iii. support, sustainability and replication of the experience of the "El Matar" project in Sousse, focusing especially upon the upgrading of informal housing areas and the production of social lots aimed principally at existing low-income owners and occupiers.

iv. support, appreciation and replication of the experiences of partnership of local governments/private operators in the collection, treatment and disposal of household waste, including mechanisms that favor cooperation among municipalities. Also the financial sustainability of activities (identification of specific, sufficient, stable and predictable resources). Clear assignment of responsibilities, rights, guarantees and contractual obligations of the public and private partners involved. Identification of mechanisms to [enforce] the respect of policy orientations (waste reduction, polluter pays [principle], producer pays etc.) and the environmental norms applicable to these matters.

3. CONSOLIDATION OF PDM-I ACHIEVEMENTS: PRIORITY ASPECTS FOR AN EVENTUAL 'AGENDA 21'

a) The consolidation of mechanisms to overcome the anarchic habitat of local government, including the review of plans and urban regulations to favor the effective densification of the existing urban fabric (setback norms, height restrictions, coefficients of plot coverage, facilitating subdivisions) the integration/reservation of minimum quotas in the conditions of contract of subdivisions and real estate development operations, broadening [the use of] condominiums in urban land acquisition, especially for social housing, support for the partnership of municipalities/the private sector/community organizations to undertake planning operations in concert with the adjustment of costs between upgrading and land titling management; granting facilities for ceding state or local government land for this type of operation; transferring tax collection proceeds to local governments under an eventual fiscal reform.

b) Undertaking studies to evaluate and project housing need (quantity, quality, cost etc.), especially for low-income populations who live in not-fully-integrated neighborhoods located in the peripheries of large cities on the coast.

c) Studying and putting into practice effective incentives for the production of social lots and housing, including the progressive suppression of all obstacles linked directly or indirectly to accessing finance by populations with low or unstable incomes. Partial up-front financing by local governments of the costs of investing in neighborhoods with unregulated housing. Consolidation of cost recovery mechanisms; exoneration, installments, or reduction of titling fees and real estate transaction registration charges. Broadening the field of intervention of social security funds, of the [Tunisian] Housing Bank and other financial institutions (commercial banks, assurance companies, CPSCL) to [allow them] to propose [different] financial products adapted to the varied but specific needs of financial and real estate developers—private and public, including those of local governments—and of target populations through the production of social lots and housing, or eventually the production of rental housing aimed at certain categories of the population (students, industrial or service workers, divorced women with children).

d) Reducing poverty and exclusion in cities through the development and integration of small economic activities within the urban area. This especially concerns local governments affected by these problems, who should be encouraged to:

i. review urban development regulations in their city plans, land use zoning and municipal ordinances in order to facilitate the implementation of local activities that do not pollute the environment—foodstuff distribution, handicrafts, service activities—within residential zones and older urban areas, such as medina,

ii. facilitate the management and occupation of activity zones, to regroup older informal merchants who occupy public areas,

iii. facilitate partnerships between local governments and public and private service providers and community organizations for planning, managing and maintaining of zones for small and medium enterprises (SME) and encouraging, as needs arise, 'nurseries' and 'incubators' for projects concerned with handicrafts, industries or services of interest to "young entrepreneurs" (women, university graduates, tradespeople, and young artisans after a period of apprenticeship),

iv. favor mayors and governors in the exercise of their regulatory prerogatives (public health controls, authorizations for occupying public land or the exercise of certain professions, preservation of 'urban aesthetics') to indirectly and effectively stimulate employment and the local economy,

v. improve the urban environment and strengthen local government capacity to face up more effectively to the multitude of environmental and development problems created by fast and stable urban growth. Some of these problems go considerably beyond the territorial jurisdiction or the means of a single local government and their solution is inevitably to be found through the identification of new modes of cooperation among local governments on the one hand and partnerships with other public or private stakeholders on the other.

Priority action areas foreseen by these new mechanisms of coordination, cooperation and partnership include, in particular, the planning, management and monitoring of: (i) urban solid waste (household and industrial waste); (ii) abattoirs; (iii) industrial zones; (iv) urban transport; (v) traffic and parking within cities and large agglomerations (especially Tunis, Sfax and Sousse); (vi) nature parks and green open space in urban areas; (vii) maintenance, rehabilitation, restoration and renewal of the old buildings in medina-type urban zones; (viii) distribution networks for agricultural and fishery products (production markets, national and regional wholesale markets, various permanent or periodic local markets (or 'souks').

All evidence points to the sustainability and replicability of actions within the framework of an eventual 'Municipal Agenda 21' will depend upon: (i) the scope of the participatory process envisioned; (ii) the clarity of the responsibilities, obligations and contractual guarantees of the various stakeholders, as well as: (iii) the relevance of financing and cost recovery mechanisms for investments and the effective use of the works undertaken.