

PROGRAM-FOR-RESULTS INFORMATION DOCUMENT (PID)

APPRAISAL STAGE

Report No.: 125729

Program Name	Urban Development and Local Governance Program
Region	MENA
Country	Tunisia
Sector	Urban
Lending Instrument	Program for Results
Program ID	P167043
Parent Program ID	P130637
Borrower(s)	Ministry of Economy and Finance, Tunisia
Implementing Agency	Ministry of Local Affairs and the Environment, Tunisia
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I. Country Context

- 1. Since 2011, the Tunisian political transition has made significant headway, yet further progress on economic and social opportunities is desirable to consolidate the transition.** A new Constitution was adopted in early 2014, followed by orderly presidential and parliamentary elections in late 2014, and the establishment of a democratically elected government in 2015. Economic growth has been relatively sluggish; regional disparities have widened; access to services is unevenly distributed; and various indicators on accountability, corruption and citizen trust have declined. As a result, social unrest continues with periodic spikes, and a wide range of stakeholders are calling for deeper and faster change towards a new and inclusive social contract.

II. Sectoral and Institutional Context

- 2. Decentralization reforms remain a critical foundation of the transition and a key pillar of building a more inclusive social contract in Tunisia.** The Government has undertaken a phased approach to decentralization reforms, in recognition that decentralization is a multi-faceted process, especially in a transitional context. It has made notable progress, including: (i) significant fiscal, legal and administrative reforms have been adopted within the framework of the Urban Development and Local Governance Program (UDLGP) and, (ii) the Government has operationalized the first set of those reforms and is beginning to see results on the ground. Nevertheless, (i) municipal elections have been postponed on several occasions, due to central government reshuffles, a lack of political consensus or a lack of administrative readiness; and, (ii) further devolution of powers and finances is required.

3. **More recently, the Government has taken major steps forward on its long run decentralization process.** Building on initial successes, including through UDLGP, in 2018 the Government plans further deepening of the decentralization process through: (i) municipal elections (scheduled for May 6, 2018ⁱ with a high probability of them occurring); and, (ii) the final adoption of the Local Government (LG) Organic Law which deepens decentralization in application of the Constitution, and which was adopted by the Assembly of the Representatives of the People's (ARP) administrative organization committee on March 7, 2018.

III. Program Scope and Changes under Additional Financing

4. **In 2014, the Government established the UDLGP, which consists of delivering municipal infrastructure services in an accountable and responsive manner through grants as well as institutional strengthening of 264 municipalities.** This is a Program to which the World Bank is providing financing and technical support through the Program for Results instrument (Parent Program P130637). The UDLGP has been performing well and has contributed to improvements in LG performance in delivering services and in putting in place important fiscal, administrative and accountability reforms to strengthen LG performance.
5. **In order to build on the progress made under UDGLP, the Ministry of Development Investment and International Cooperation (MDICI) of Tunisia requested an Additional Financing (AF) of US\$130 million to the Program supported by the Bank.** The main reasons for the Government request are: (i) an increase in the beneficiaries under the Program from approximately 7 million to 9.7 million Tunisians; (ii) a need and opportunity to deepen LG performance to ensure improved service delivery that is visible to citizens building on the initial successes of UDLGP; (iii) the focus on equity in service access and in particular in disadvantaged neighborhoods needs to be expanded; and (iv) the urgency of alleviating human resource and accountability constraints so that LGs can execute their functions. The AF will assist the Government in deepening impact and building a more inclusive social contract in three interlinked ways: (i) scaling up results by supporting an increase in the LG performance-based capital grant and conditional grants to accommodate expanded geographical coverage and reach a larger number of beneficiaries; (ii) further strengthening LG performance, systems and accountability to improve service delivery and respond to growing citizen demands; and, (iii) adjusting Program design to align with the current and forthcoming framework of decentralization reforms and to enhance sustainability.
6. **The Program boundary will change only with respect to time.** The closing date of the Program will be extended by three years to 2022.
7. **The AF will finance scaled-up results, through the changes to the parent Program outlined below:**
 - (i) **Sub-Program 1 (unconditional performance-based capital grant).** The AF will finance the scale up of the performance-based capital grant to approximately USD 50 million per year and extend it for approximately three years. In tandem, the PA system that conditions access to this grant will be revised to include indicators that incentivize

desired outputs and outcomes, not just processes. This represents one of the first shifts of a WB-financed LG PA system from a process-orientation to an output and outcome orientation.

- (ii) **Sub-Program 2 (improving access to municipal infrastructure in disadvantaged neighborhoods).** This would be scaled up to finance upgrading of disadvantaged neighborhoods that were not included in the parent Program. This scale up would be accompanied by a shift in the way the funds are allocated, promoting better alignment with the Government's decentralization framework. The proposed shift in modality will be: (i) LGs will choose whether to access the funds (versus the central government deciding on participation as is the case under the parent Program); (ii) selection of LGs to access such funds will be based on transparent selection criteria; and (iii) a matching requirement (calibrated based on LG capabilities) will be introduced to incentivize LG investment in disadvantaged neighborhoods (which they currently leave for the central government to finance).
- (iii) **Sub-Program 3 (LG capacity building and institutional development).** New activities were identified to further address binding constraints to achievement of the Program's objectives. The four key changes are: (1) putting greater emphasis on LG institutional development to ensure impact and sustainability; (2) strengthening LG financial resource management capacity, execution and oversight; (3) strengthening LG transparency and accountability through improved open data and deepened citizen engagement; and, (4) further addressing critical HR capacity and staffing constraints.

- 8. **The deepening of a more decentralized system of governance, local development and service delivery is fully aligned with the World Bank's Country Partnership Priorities (FY16-20) and the World Bank Regional Strategy for the Middle East and North Africa.** Most notably it is aligned with the goals of: (i) improving development in lagging regions; (ii) strengthening social and economic inclusion, including access to services; and, (iii) renewing the social contract, including by building citizen trust.

IV. Program Development Objectives

- 9. **The Program Development Objectives (PDO) and PDO indicators will not change but the DLIs and the Results Framework will be revised to strengthen progress towards the PDO.** The PDO and related indicators remain technically sound and relevant to the Program context. However, certain DLIs and intermediate indicators in the RF are revised to incentivize greater results. The development objectives of the parent Program are: (i) to strengthen Local Governments' performance to deliver municipal infrastructure, and (ii) to improve access to services in targeted disadvantaged neighborhoods.

V. Environmental and Social Effects

- 10. **The Program implementing entities and environmental and social regulations remain consistent with those in the original loan.** The environmental and social impacts of the Program would not change substantially in light of Program changes, including scale up of the unconditional capital grant transfers to LGs.

11. The Program environmental and social management systems are deemed Moderately Satisfactory. This rating is due primarily to initial delays with the development of Environmental and Social Management Plans (ESMPs) by LGs, where a period of acclimatization was needed before LGs could meet the new requirements for applying the Environmental and Social Guides developed for the program, and for preparing ESMPs for subprojects.

12. Publication and Public Consultation. A draft Environmental and Social Systems Assessment (ESSA) addendum will be disclosed on the Bank's website at the start of appraisal. It has been consulted during a meeting convened by the *Caisse des Prêts et de Soutien aux Collectivités Locales* (CPSCL, the implementing agency) and the Bank on April 5, 2018. The final ESSA Addendum will incorporate the findings of the public consultation.

VI. Financing

13. An additional loan in the amount of US\$130 million would be added to the Tunisia UDLGP. The parent Program loan P130637 / Credit No. 8413-TN is in the amount of USD 300 million. The Additional Financing would support the implementation of the scale up of the Government's program.

VII. Program Institutional and Implementation Arrangements

14. Overall, implementation of the Program will be carried out by the same entities, which have proven their ability to effectively implement the Program. The implementing agency will remain CPSCL, under the supervision of its new line ministry, Ministry of Local Affairs and Environment (previously Ministry of Interior), and supported for specific aspects of the Program by MDICI, *Contrôle Général des Services Publics*, *Cour des Comptes*, and *Centre de Formation et d'Appui à la Décentralisation*. Strategic partnerships, through MoUs, will be established where necessary with other key stakeholders relevant to AF activities. Notably, an MoU will be signed with the Directorate of Civil Service Reform to enlist support for the Human Resource Management actions.

VIII. Contact points

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