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Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 12-Jun-2022 | Report No: PIDA34150

**BASIC INFORMATION****A. Basic Project Data**

Country Tunisia	Project ID P179010	Project Name Tunisia Emergency Food Security Response Project	Parent Project ID (if any)
Region MIDDLE EAST AND NORTH AFRICA	Estimated Appraisal Date 08-Jun-2022	Estimated Board Date 27-Jun-2022	Practice Area (Lead) Agriculture and Food
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Economy	Implementing Agency Office des Céréales	

Proposed Development Objective(s)

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.

Components

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

The processing of this project is applying the policy requirements exceptions for situations of urgent need of assistance or capacity constraints that are outlined in OP 10.00, paragraph 12.

Yes

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	130.00
Total Financing	130.00
of which IBRD/IDA	130.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**



International Bank for Reconstruction and Development (IBRD)	130.00
Environmental and Social Risk Classification	
Substantial	
Decision	
The review did authorize the team to appraise and negotiate	

Other Decision (as needed)

B. Introduction and Context

Country Context

- Tunisia is simultaneously facing a challenging macro-fiscal situation aggravated by the impact of the war in Ukraine along with a fragile social situation with increasing poverty and vulnerability.** Public debt increased substantially over the past years to over 80 percent of Gross Domestic Product (GDP) and is unsustainable without an IMF program, for which an agreement has not been found yet. The country cannot access to international financial markets on concessional terms. Economic recovery from COVID has been limited (3.1 percent GDP growth in 2021¹), coming on the heels of one of the strongest COVID-induced contractions in middle income countries (-9.2 percent in 2020). Today, the war in Ukraine has a strong economic and social impact; it puts further strong pressure on the budget and could significantly affect food security as about 75 percent of cereals and 48 percent of oil and gas are imported. The energy subsidy bill is set to increase from 2.1 to 6 percent of GDP if the average price of oil in 2022 were to increase from US\$75 per barrel (2022 budget assumption) to US\$115 per barrel. Grain subsidy levels stood at 2.2 percent of GDP in November 2021, before the grain price hike triggered by the war in Ukraine². Both fiscal and current account deficits are projected to increase to close to 10 percent of GDP. The grain import bill is expected to increase by at least 25 percent (US\$250 million) due to the global price spikes. In a context of rising public debt³ coupled with a serious deterioration of Tunisia's credit worthiness⁴, the Government of Tunisia (GoT) has requested assistance from its partners to secure short term grain and agricultural input imports considering the impact that a disruption of such imports could have on the vulnerable populations, social stability as well as domestic food production.
- The World Bank and other partners are responding to the crisis through the preparation of a multi-donor emergency response package,** which is supporting vital short-term imports of barley for livestock, wheat for bread and inputs for domestic production as well as providing technical assistance of the necessary reform and modernization of the Tunisia's Grain Board and food subsidy system. The development partner-financed program also includes investments in storage capacity expansion for the medium run. Short-term

¹ Institut National des Statistiques (INS) – National Statistics Institute

² Prices are currently 47 percent above their November 2021 level.

³ According to World Bank's estimates, the overall accumulation of budget deficits has resulted in public debt levels that have soared from 67.9 percent of GDP in 2019 to 89 percent by the end of 2021.

⁴ In October 2021, Moody's downgraded Tunisia's sovereign risk rating from "Very speculative value, high credit risk level" (B3) to "Speculative bond, very poor quality, very high level of credit risk" (Caa1) with a continuing negative outlook.



imports would be supported through direct financing of import orders rather than budget support which would still leave the Grain Board (*Office des Céréales*) without the necessary financial guarantees. In parallel, the Bank is supporting the country's safety net program AMEN through the COVID-19 Social Protection Emergency Response Support Project (P177821, Additional Financing for US\$400 million, March 2022) which ensures the protection of vital household transfers during 2022.

3. **The accumulation of crises affecting Tunisia is threatening past achievements. Poverty and unemployment remain high, particularly in rural areas of the inner regions.** The national poverty rate fell from 20.5 percent to 13.8 percent between 2010 and 2019, but about 23 percent of those living in rural areas in 2019 remained below the poverty line, compared to only 9 percent of urban residents. There are persistent regional disparities in economic opportunities, living standards and access to basic services between coastal and inner regions, especially rural areas. The share of rural residents that remained vulnerable to falling back into poverty barely declined between 2000 and 2019 and remained at a high 42 percent of the population in 2019, before the pandemic hit. The COVID-19 pandemic has reversed the gains made since 2010 in reducing poverty, inequality and gender-based gaps. Specifically, poverty is estimated to have increased from 13.8 percent of the population pre-pandemic to 21 percent in 2020, with most of the impact being felt by the poorest households. Additionally, more people are expected to become vulnerable to falling into poverty. Phone surveys conducted in 2021 showed evidence that poorer households have reduced the quantity of food they consumed or started consuming less preferred foods⁵. The unemployment rate reached 18.4 percent in 2021 (from 15.1 percent in 2020) and is disproportionality high in the inner regions, especially youth and women. Indicators of both women's economic opportunity and of their voice and agency, two central components of gender equality, have fallen since the onset of the pandemic.
4. **In a slow post-pandemic economic recovery, grain supply disruptions in the domestic market could lead to social tensions, as observed in the past.** Grain products are an essential part of the Tunisian diet (representing on average 50 percent of energy requirements) and the main caloric source for the poorest categories of the population, without obvious options for substitution. Changes in international prices of wheat-based products are not directly transmitted into domestic prices as the universal food subsidy program keeps them stable (for further details see under Sector Context below). However, Tunisian markets are now experiencing food shortages and purchase restrictions are being imposed by supermarkets; the situation is particularly sensitive for bread, with the Government currently unable to secure soft wheat imports beyond July 2022. The memory of the significant social unrest that followed a bread price increase in December 1983-January 1984 remains strong. Shortages of grain products, of bread in particular, could trigger renewed social protests and exacerbate the overall discontent of Tunisian citizens in an already frayed socio-economic context.
5. **Recurrent shocks and crises highlight the need to urgently tackle long overdue structural reforms.** Tunisia needs to adopt decisive structural reforms, including subsidy reforms in the grain value chain, to put the economy on a more sustainable path, to reduce the country's debt burden, to promote private sector development and to boost competitiveness to create more jobs, especially for youth and women.⁶ The difficulty in financing the growing public debt has led the Government appointed in October 2021 to formulate a structural reform plan that would aim to reduce fiscal expenditures, including universal consumer subsidies, transfers to SOEs and the public wage bill. Significant importance rests with the existing social assistance program AMEN which will need to ensure that poor households continue to receive the

⁵ World Bank and National Institute of Statistics

⁶ World Bank (2022), Tunisia Economic Monitor (Winter 2021 Edition) - "Economic Reforms to Navigate out of the Crisis"



financial assistance needed to maintain their level of consumption, to have access to adequate health care and basic services, and to protect their nutritional status. During 2020, the program had been used to channel additional and emergency cash transfers to vulnerable households to enable them to confront the economic hardship brought about by the pandemic. The program is now being expanded to reach 310,000 households or about 10 percent of the population.

6. **Climate change represents a growing and significant threat, particularly to the livelihoods of the rural population and needs to be more deliberately addressed in expected structural reforms and future investment plans.** As one of the most exposed countries in the Mediterranean region, Tunisia is considered highly vulnerable to climate change.⁷ The main risks associated with climate change in Tunisia are increased temperatures, increased aridity, reduced precipitation, rising sea levels, and extreme weather events (floods and droughts), with impacts on water resources, the agricultural and livestock sectors, ecosystems and coastal areas, and the tourism industry. Impacts are already being experienced across the already highly arid country and water scarcity and drought conditions are expected to increase the risks of food insecurity. Climate risks represent a significant threat to the health of the population, to the urban poor particularly, and to livelihoods of rural people who rely on agriculture and livestock.

Sectoral and Institutional Context

7. **The sudden halt in exports of grains from Ukraine and the export shortfall from the Russian Federation and the Black Sea region due to the ongoing war in Ukraine have had drastic impacts on global food and nutrition security, particularly for net-food importers like many countries in the Middle East and North Africa (MENA).** The war has resulted in unprecedented disruptions of exports of grains and edible oils from Ukraine and the Russian Federation, impacts on shipping logistics beyond the Black Sea region, food price hikes and risks to the next agricultural planting season due to high fertilizer and fuel prices.
8. **As of May 2022, the scale of current export restrictions has surpassed that of the 2007/08 food crisis with severe impacts across the MENA Region.** Prior to the war, grain and fertilizer markets were already tight. Global buffer stocks are down for a second year in a row. They are now at their lowest level in six years, indicating that markets are likely to remain volatile and tight into 2023. The United States Department of Agriculture (USDA) issued its first world estimates for the 2022-23 crop season in early May 2022, forecasting a fall in global wheat production for the first time in four years, a forecast which increased wheat prices further. The continuation of the war in Ukraine, its impacts on shipping and logistics and further reductions in exports from large exporters (e.g., the recent announcement by India on wheat export restrictions), could lead to a worsening of market tensions and global food security prospects in 2023 (FAO, May 2022). In the short term, the most vulnerable countries are those, such as Tunisia, with substantial shares of imports of key food commodities from Ukraine, the Russian Federation, or both, and where the share of wheat in daily calories is high.
9. **The war in Ukraine has delivered a major grain supply shock with significant impact on Tunisia.** Global food prices were already high and rising before the war started – in nominal terms, the World Bank's Food Price Index was at a record high, and in real terms it was near the highs reached in 2008 and 2012. As of May 23, 2022, global wheat prices were 57 percent higher than in February 2022 and 93 percent higher compared to January 2021. Global barley prices have increased from US\$250/ton in August 2021 to US\$400/ton as of March 2022. In Tunisia, wheat import prices increased by 40 percent between January

⁷ Republic of Tunisia (2016), Nationally Determined Contribution; and World Bank (2021), "Climate Risk Profile: Tunisia"



and early March 2022. Tunisia relies heavily on the import of wheat and barley for the domestic market which is centralized through the *Office des Céréales*. With the current international prices, OC will face an estimated US\$250 million extra cost compared to its 2022 budgeted purchases (2.7 million tons of wheat and barley at an estimated cost of US\$1.06 billion). This places additional pressure on OC's already difficult financial situation due to the GoT's arrears and borrowing from domestic banks. OC is also now facing intense competition on international markets from larger and wealthier grain importing countries that are trying to secure adequate food supplies.

- 10. Tunisia remains a large importer of grain with increasing dependency over the past years on the Russian Federation and Ukraine.** Between 2017 and 2021, Tunisia imported on average 2.4 million tons of grain annually, including 43 percent soft wheat, 38 percent barley and 19 percent durum wheat. The share of grain imports from Ukraine and the Russian Federation has exceeded 50 percent since 2017. In 2021, 60 percent of imported soft wheat and 66 percent of barley came from these two countries. The large dependency on these two countries has amplified the risk of supply disruptions in a volatile international market.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

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.

Key Results

- (i) Quantity of barley accessed by smallholder dairy producers through the Project (metric tons);
- (ii) Areas planted with certified wheat seeds adapted to local water-stressed conditions, procured and delivered to small farmers through the Project (Percentage);
- (iii) Poor and vulnerable households reporting adequate access to affordable bread (Percentage), disaggregated by gender (Female-headed poor and vulnerable households);
- (iv) Regular publication of data on grain stocks, imports and production available on OC's website; and
- (v) Public consultations organized by the GoT on a time-bound food subsidy reform implementation plan.

D. Project Description

- 11. The project will support activities aimed at protecting producers and consumers from global market disruptions in the short term, while enhancing the resilience of the grain value chain to price, supply and climate shocks in the medium term.** In the short term, GoT's objective is to support domestic production through the availability and accessibility of agricultural inputs for small producers affected by price hikes and market disruptions (affordable feed (barley) for smallholder dairy producers and improved wheat seeds for small farmers), and to secure the availability and accessibility of bread for poor and vulnerable households. At the same time, the GoT wants to use this crisis as an opportunity to strengthen the resilience of its grain value chain to market and climate shocks by providing the right incentives to grain producers to stimulate domestic production, while reducing the burden on public finances and better targeting food



subsidies (including reducing waste and improving nutrition). The project will consist of three components providing a balance between short-term urgent responses, through support to producers by making key inputs – barley and improved seeds - available (Component 1), the temporary purchase of soft wheat to maintain access to affordable bread (Component 2), and medium-term measures (Component 3) to improve the whole grain value chain organization and adjust the associated public support program. Bank financing is part of a coordinated response with other donors (to secure grain purchase and support producers) and the project will develop synergies with other donor interventions (reform preparation, storage facility improvement, etc.).

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

- 12. The environmental and social risk classification for the proposed project is substantial.** There will be some limited risks related to unloading grain from vessels, and those risks need to be managed using the proportionate approach to risk management. There is also the risk of exclusion of vulnerable groups and elite capture. In particular, the unloading activities are carried out by contractors regularly hired by the OC, who will be responsible for the procurement process both for grain purchase and for contracting unloading contractors. The OC will ensure that offloading contractors follow adequate procedures for controlling impacts of dust and maintain adequate occupational health and safety (OHS) measures during the unloading process, as well as all COVID-19 preventive measures as per the Bank's guidelines and GBV/SEAH⁸ prevention measures as per the Bank's Good Practice Note. Accordingly, the PIU will prepare a Pest and Pesticide Management Plan and a Contractor Occupational Health and Safety Plan (C-OHSP) which will include standard measures to be adopted by contractors to prevent inadequate exposure to dust emissions, to ensure that workers, port staff and other people that needs to be at the berth during unloading will be protected from health and safety risks, to prevent COVID-19 contagion and GBV/SEAH preventive measures. The C-OHSP will be cleared by the Bank and will be included in the framework agreement between OC and eligible importers and will cascade down to the contract between the importers and unloading contractors at the port. When finalized and cleared, the C-OHSP will be incorporated in the Environmental and Social Commitment Plan (ESCP).
- 13. The OC has prepared a stakeholder engagement plan (SEP) which documents key stakeholders and consultations carried out; it has been disclosed along with the ESCP by the World Bank and OC on June 9, 2022.** Stakeholders include the OC which is directly benefitting from the financial support of the project, the Port Authority, the association of millers and mill owners, the Ministry of Finance, MAWRP and relevant Directorates and agencies. The Tunisian population will be the direct beneficiary of the project. Vulnerable and disadvantaged groups include women groups, female-headed households, people with disabilities, the

⁸ Gender-based violence / sexual exploitation, abuse and sexual harassment



elderly, the extremely poor, and those people who do not know how to read or write to understand the proposed project and who may have limitations in participating and/or understanding the project information. Initial stakeholders' identification and consultation were conducted during project preparation. Stakeholder engagement will continue throughout project implementation. Active efforts will be made to seek stakeholders' feedback on the consistent availability of wheat, barley and bread. Engagement frequency and modalities will be determined by the needs of the project as well as the needs and interests of different stakeholders. Information about the project will be made available to stakeholders through the PIU's website. The PIU will conduct inclusive consultation with vulnerable and disadvantaged groups before the start of relevant project activities.

- 14. The OC will establish a grievance mechanism based on the existing mechanism already in place.** This mechanism is detailed in the Project's SEP to receive, process and address project-related grievances. Information will be widely disseminated before project implementation. The effective operation of the grievance mechanism will be closely monitored during implementation and adjustments will be made where needed in agreement with the Bank.

E. Implementation

Institutional and Implementation Arrangements

- 15. The overall project oversight on the reform dimension will be with the Prime Minister's Office and the operational supervision will be under a Project Steering Committee.** The Project Steering Committee will be established with participation of key Ministries (Economy, Finance, Trade, Industry and Agriculture). It will be chaired by the Minister of Agriculture and the OC will take charge of the secretariat. This Steering Committee will ensure the oversight of grain and seed purchases, and the preparation of analytical studies and reform options of the grain subsector under the overall guidance of the Food security Committee at the Prime Minister level. It will play a critical role to ensure inter-ministerial coordination and consultations on proposing revisions of the program of public support to the grain value chain, especially designing a sequenced phasing out of food subsidies with corresponding mitigation measures to protect the most vulnerable, and the modernization of the OC. The Steering Committee will hold regular consultations with key stakeholders and be response for external communication about reforms.
- 16. All Project activities will be implemented by the OC.** Under components 1 and 2, the OC will be in charge of grain and seed purchases. The OC is a public entity under the responsibility of MAWRF and has well established grain procurement procedures that meet World Bank requirements with some slight adjustments. Under component 3, the OC will commission studies, and receive capacity building and implement other TA activities under the guidance and instruction of the Steering Committee. Design and implementation of TA activities will be done in close coordination and consultation with other concerned Ministries (Economy, Finance, Trade, Industry), MAWRF Departments and public agencies, and agricultural professional organizations and private operators (grain importers, millers, agri-food industries, animal feed industries, bakeries, and so on).

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APPROVAL

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