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Report No: PAD5049

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$130 MILLION

TO THE

REPUBLIC OF TUNISIA

FOR A

TUNISIA EMERGENCY FOOD SECURITY RESPONSE PROJECT

June 14, 2022

Agriculture And Food Global Practice
Middle East And North Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective June 10, 2022)

Currency Unit = Tunisian Dinar (TND)

TND 3,031 = US\$1

US\$ 0.0003 = TND 1

FISCAL YEAR

January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
BNA	<i>Banque Nationale Agricole</i> – National Agriculture Bank
CGC	<i>Caisse Générale de Compensation</i> – General Compensation Fund
CPF	Country Partnership Framework
COVID-19	Corona virus disease 2019
CRDA	<i>Commissariat Régional au Développement Agricole</i> - Regional Agriculture Development Directorate
DA	Designated Account
DFIL	Disbursement and Financial Information Letter
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
ERP	Enterprise Resource Planning (software)
ESCP	Environmental and Social Commitment Plan
ESIA	Economic and Social Impact Assessment
ESMF	Environmental and Social Management Framework
ESS	Environmental and Social Safeguards
EU	European Union
FAO	Food and Agriculture Organization
FCV	Fragile, Conflict and Violence
FM	Financial Management
GBV	Gender-based violence
GDP	Gross Domestic Product
GFRP	Global Food Crisis Response Program
GoT	Government of Tunisia
GP	Global Practice
GRM	Grievance Redress Mechanism
HAICOP	<i>Haute Instance de la Commande Publique</i> – High Commission for Public Procurement
IFR	Interim Financial Report
IMF	International Monetary Fund
INGC	<i>Institut National des Grandes Cultures</i> - Grain Research Institute
INRAT	<i>Institut National de la Recherche Agronomique de Tunisie</i> - Tunisia National Agriculture Research Institute
INS	<i>Institut National des Statistiques (INS)</i> – National Statistics Institute
IPF	Investment Project Financing
MAWRF	Ministry of Agriculture, Water Resources and Fisheries
MENA	Middle East and North Africa
MoE	Ministry of Economy
NARI	National Agriculture Research Institute
OC	<i>Office des Céréales</i> - Grain Board

OHS	Occupational health and safety
OHSP	Occupational Health and Safety Plan
ONAGRI	<i>Observatoire National de l'Agriculture</i> – National Agriculture Statistics Office
ONMP	<i>Observatoire National des Marchés Publics</i> - National Public Procurement Observatory
PDO	Project Development Objective
PPSD	Project Procurement Strategy for Development
POM	Project Operations Manual
PIU	Project Implementation Unit
PPMP	Pest and Pesticide Management Plan
TND	Tunisian Dinar
ToR	Terms of Reference
RCP	Representative concentration pathway (of greenhouse gas emissions)
SCD	Systematic Country Diagnostic
SEAH	Sexual exploitation, abuse and harassment
SEP	Stakeholder Engagement Plan
SOE	State-Owned Enterprises
SORT	Systematic Operations Risk Rating Tool
STEP	System Tracking of Exchange in Procurement
ToRs	Terms of Reference
WBG	World Bank Group
WFP	World Food Program



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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name		
Tunisia	Tunisia Emergency Food Security Response Project		
Project ID	Financing Instrument	Environmental and Social Risk Classification	Process
P179010	Investment Project Financing	Substantial	Urgent Need or Capacity Constraints (FCC)

Financing & Implementation Modalities

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Performance-Based Conditions (PBCs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input checked="" type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	<input type="checkbox"/> Hands-on Enhanced Implementation Support (HEIS)

Expected Approval Date	Expected Closing Date
28-Jun-2022	30-Jun-2025

Bank/IFC Collaboration

No

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

Component Name	Cost (US\$, millions)
Emergency support to farmers	60.00
Emergency purchase of wheat for food security	60.00
Improving resilience to food security shocks and project management	10.00

Organizations

Borrower: Ministry of Economy

Implementing Agency: Office des Céréales

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
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Expected Disbursements (in US\$, Millions)

WB Fiscal Year	2022	2023	2024	2025
Annual	0.00	120.00	5.00	5.00
Cumulative	0.00	120.00	125.00	130.00

INSTITUTIONAL DATA



Practice Area (Lead)

Agriculture and Food

Contributing Practice Areas

Finance, Competitiveness and Innovation, Macroeconomics, Trade and Investment, Social Protection & Jobs

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● Substantial
3. Sector Strategies and Policies	● Substantial
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Moderate
6. Fiduciary	● Substantial
7. Environment and Social	● Substantial
8. Stakeholders	● Moderate
9. Other	
10. Overall	● Substantial

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

Yes No

Does the project require any waivers of Bank policies?

Yes No



Have these been approved by Bank management?

Yes No

Is approval for any policy waiver sought from the Board?

Yes No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Not Currently Relevant
Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank’s due diligence assessment of the Project’s potential environmental and social risks and impacts, please refer to the Project’s Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description

Section I.A. 1(a) of Schedule 2: No later than sixty (60) days after the Effective Date, or such later date as agreed by the Bank, the Borrower shall cause the OC to establish and thereafter maintain through Project implementation, a Project Implementation unit (“PIU”) in charge of the day-to-day implementation, management, monitoring and



evaluation of the Project’s activities, including reporting requirements, with terms of reference, functions, composition and adequate resources acceptable to the Bank and as further described in the POM; said PIU to serve also as secretariat of the Steering Committee.

Sections and Description

Section I.A. 1(b) of Schedule 2: No later than sixty (60) days after the Effective Date, or such later date as agreed by the Bank, the Borrower shall cause OC to prepare and adopt a manual acceptable to the Bank (“Project Operational Manual” or “POM”), and thereafter, carry out the Project in accordance with the POM.

Sections and Description

Section I.A. 2 of Schedule 2: The Borrower shall, no later than sixty (60) days after the Effective Date, or such later date as agreed by the Bank, establish, and thereafter maintain throughout Project implementation, a steering committee (“Steering Committee”) with composition, functions and responsibilities as set forth in the POM (including the Ministry of Economy and Planning, the Ministry of Finance, the Ministry of Agriculture, Water Resources and Fisheries, the Ministry of Industry and the Ministry of Trade), to provide strategic guidance, coordination and oversight of the Project.

Conditions

Type	Financing source	Description
Effectiveness	IBRD/IDA	Article 5.01 (a) The Additional Condition of Effectiveness is that the Subsidiary Agreement has been executed on behalf of the Borrower and the OC and is in full force and effect.
Effectiveness	IBRD/IDA	Article 5.01 (b) The Additional Condition of Effectiveness is that the ESMF has been prepared, consulted, approved and disclosed in form and substance acceptable to the Bank.



I. STRATEGIC CONTEXT

- 1. This Project Document proposes a Tunisia Emergency Food Security Response Project.** The proposed operation in the amount of US\$130 million would be part of a coordinated emergency response of five bilateral and multilateral partners of Tunisia for an estimated total amount of US\$460 million¹. Tunisia has lost access to international financial markets and is dependent on imports to cover respectively 95 percent and 70 to 75 percent of its soft wheat² and barley consumption, with grain imports from Ukraine and the Russian Federation having represented on average between 50 and 60 percent of Tunisia's grain imports in recent years. The emergency program would provide partner support to guarantee vital imports of grains as well as agricultural inputs for small farmers. The proposed IBRD operation would aim to secure uninterrupted access to (i) agricultural inputs for predominantly vulnerable smallholder farmers to secure the next planting season and for continued dairy production; (ii) wheat for uninterrupted access to bread which is especially important for the daily caloric intake of vulnerable households; and to (iii) strengthen Tunisia's resilience to food crises. The proposed operation would provide the first response in terms of access to wheat, to set the system for additional donor support to follow in the months to come (European Bank for Reconstruction and Development - EBRD in August 2022, followed by European Investment Bank - EIB and the European Union - EU in September/October 2022). In addition, the operation is an important opportunity to support the modernization of the Tunisian Grain Board (*Office des Céréales - OC*) and lay the ground for reform of the grain value chain and associated subsidy system.

A. Country Context

- 2. 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 has lost access to international financial markets. Economic recovery from COVID has been limited (3.1 percent GDP growth in 2021³), 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 Ukraine⁴. 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 debt⁵ coupled with a serious deterioration of Tunisia's credit worthiness⁶, the Government of Tunisia (GoT) has requested assistance from its partners to secure short term grain imports and the provision of agricultural inputs for the next planting season considering the impact that a disruption of access

¹ Based on the information available as of early June 2022, as communicated by partners, and subject to adjustment

² Soft wheat is used for bread making (unlike durum wheat which cannot be used for bread making)

³ Institut National des Statistiques (INS) – National Statistics Institute

⁴ Prices are currently 47 percent above their November 2021 level.

⁵ 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.

⁶ 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.



to grain and agricultural inputs could have on vulnerable populations, social stability as well as domestic food production.

- 3. Tunisia has been in a difficult political transition since July 2021.** On July 25, 2021, following protests against the Government and the Parliament, the President of Tunisia invoked emergency powers under Article 80 of the 2014 Constitution, dismissed the Government, suspended Parliament and has since governed by decree. Transitional institutional arrangements were adopted on September 22, 2021, and a new Government was appointed on October 11, 2021. In December 2021, the President announced a referendum on the future Constitutional Text to be held on July 25, 2022, and a subsequent adoption of an electoral law and new elections in December 2022. Recently, on May 23, the national labor union (UGTT) announced that it would not join a national dialogue proposed by President Saïed and called for a general strike of public service and public sector workers.
- 4. The World Bank and other partners are responding to the crisis through the preparation of a multi-donor emergency response package** (Table 3), 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 for the necessary reform and modernization of the Tunisia's Grain Board and food subsidy system. The development partner-financed program also includes investments in grain storage modernization and expansion for the medium run. Given that Tunisia cannot access the international capital market with concessional conditions, short-term imports would be supported through direct financing of import orders rather than budget support which would still leave the *Office des Céréales* without the necessary financial guarantees. In parallel, the World 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.
- 5. 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 foods⁷. The unemployment rate reached 18.4 percent in 2021 (from 15.1 percent in 2020) and is disproportionately high in the inner regions, especially for 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.
- 6. 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

⁷ World Bank and National Institute of Statistics



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.

- 7. 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.⁸ 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 State-Owned Enterprises (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 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.
- 8. 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.⁹ 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 agriculture 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.

B. Sectoral and Institutional Context

- 9. 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.
- 10. 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

⁸ World Bank (2022), Tunisia Economic Monitor (Winter 2021 Edition) - "Economic Reforms to Navigate out of the Crisis"

⁹ Republic of Tunisia (2016), Nationally Determined Contribution; and World Bank (2021), "Climate Risk Profile: Tunisia"



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.

11. 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 and early March 2022. Tunisia relies heavily on the import of wheat and barley for the domestic market (see Table 1) which is centralized through OC. 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, see Table 2). This places additional pressure on OC’s already difficult financial situation due to the GoT’s arrears and massive 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. In March 2022, the OC had to cancel a wheat tender due to high prices and low response. Payments are currently being processed shipment by shipment with significant delays. Delayed payments for recent grain contracts and deliveries represent a serious threat to the continuous supply of the domestic market while OC’s grain reserves have been depleted below one month of domestic consumption, down from an average of 2.5 months of consumption over the past 3 years, which is considered a critical minimum to mitigate market risks. The situation is particularly dire for soft wheat for which Tunisia is almost entirely dependent on imports.

Table 1 – Key figures for the soft wheat and barley value chains in Tunisia (2022)

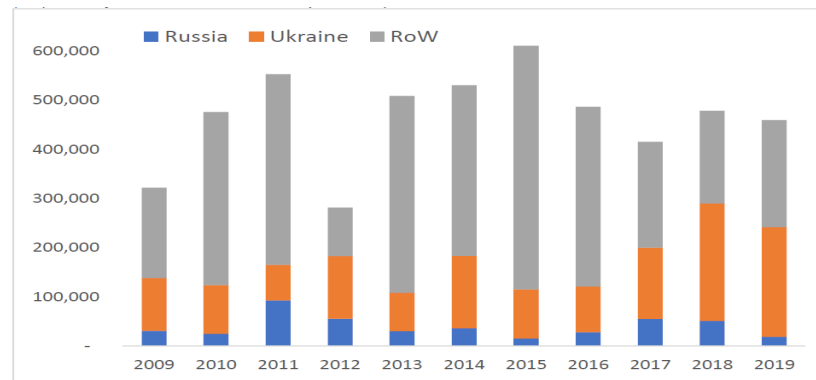
	Soft wheat (for bread)	Durum wheat (for other products and feed)	Barley
Annual Production (metric tons)	90,000	1,010,000	420,000
Projected annual imports (metric tons)	1,140,000	550,000	1,000,000
Annual Consumption (metric tons)	1,230,000	1,560,000	1,420,000
Current Stocks (metric tons)	75,000	130,000	110,000

Source: USDA, Tunisia National Institute of Statistics and OC

12. Tunisia remains a large importer of grain with large dependency 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 wheat imports from Ukraine and the Russian Federation has exceeded 50 percent since 2017 (Figure 1). 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.



Figure 1 - Share of Ukraine, Russia and Rest of World (RoW) in Tunisian wheat imports ('000 US\$ per source)



Source: WITS

The role of domestic grain and dairy production

- 13. Tunisia is a traditional producer of grain, mainly durum wheat and barley.** With olive and tomatoes, durum wheat is among the three main crops traditionally produced in Tunisia, and wheat-based products (bread, semolina, couscous, and pastas) are at the core of the Tunisian diet. Tunisian farmers traditionally produce barley, which is important for livestock production, especially dairy production (feed costs represent more than 50 percent of dairy production costs). However, domestic production covers only half of the country's annual durum wheat needs and 25-30 percent of barley needs (for animal feed). Due to climatic conditions and limited irrigation, soft wheat production (for bread making) remains limited and covers only 5 to 10 percent of the country's needs (Table 1). Grain is predominately produced in the North and Center of the country, where cultivation conditions including rainfall are more favorable. Grain production is rainfed – leading to high inter-annual variations in output. Beyond fluctuations linked to rainfall conditions, overall grain production has been stagnating over the past decade (on average 1.7 million tons).
- 14. The domestic grain sector is economically important, providing income and jobs in rural areas.** Grain production is important in the farming system (for crop rotation and animal feed) and for the livelihoods of many family farms as the main source of income. Grain production relies for a large share on small-scale family farms. According to the last agricultural census (ONAGRI, 2005), among the half million farms in Tunisia, 88 percent are family farms and 75 percent hold less than 10 hectares and 50 percent less than five hectares. Domestic grain production relies on approximately 250,000 farms (50 percent of Tunisian farms), of which 62 percent are smallholder farmers (less than 10 ha), which provide 60 percent of the total grain production. Most of these farms rely on a mixed grain-livestock farming system whereby grain production is essential for self-consumption, income generation and animal feed for dairy production. These farms usually purchase certified seeds that they will recycle every two to four years. Only five percent of Tunisian farmers belong to a producer organization and only seven percent have access to credit. Smallholder farmers are also constrained by fragmented land, limited access to improved seeds, poor access to markets, no dedicated or easily accessible financial support and non-financial public support. The grain value chain provides jobs in its upstream segments (input supply, mechanization, etc.) and its downstream segments in the processing (flour mills) and the agri-food industry (e.g., bakeries, pasta and semolina production).
- 15. Dairy production is another important part of the rural economy and an essential source of incomes for smallholder farmers.** One third of Tunisian farms produce milk and national dairy production accounts for 11



percent of the overall value of agricultural production. Dairy consumption is also an important element in diets and balanced nutrition, in particular for children. Tunisia's dairy sector is driven by smallholder cattle farmers with more than 90 percent of dairy farms having less than 10 cows, and more than 80 percent having less than 5 cows. Approximately 63 percent of the milk is sold through formal channels, and the remaining 27 percent is for household self-consumption and informal local marketing and artisanal processing. To feed their cattle, dairy farmers rely on their own fodder production and open grazing areas, but they need to supplement those resources with purchased barley and animal feed to increase productivity and bridge the gap with available fodder. Feed represents the largest cost item for dairy production (over 50 percent of production costs). A recent survey by IACE¹⁰ found that small dairy producers are already using negative coping strategies as barley is lacking on the market and prices of feed have increased as a result of current global market disruptions, and that 56 percent have had to reduce the size of their herds. Each year, a distribution plan for imported, supplemental barley is formulated by each regional directorate of the Ministry of Agriculture, Water Resources and Forestry (MAWRF) to ensure an equitable allocation of supplemental barley among the different producing areas and producer quotas are established to avoid elite capture.

- 16. Farming, and grain and dairy production in particular, is the dominant activity for many women in rural areas.** Overall, agriculture remains an important source of employment in the inner regions with 28 percent of men and women working in agriculture either as self-employed or unpaid family labor on farm. Once subsistence agricultural production is accounted for, women's employment rate in the rural areas of the interior regions increases from 13 to 30 percent, much higher than the 21 percent employment rate of women in rural areas of the coastal regions. Over half of the employed women in the inner regions state that working as unpaid workers on family farms is their primary occupation.¹¹ Women account for 70 percent of the agriculture workforce in Tunisia, but they represent only 8 percent of the heads of farms and hold less than 5 percent of agriculture land.¹² However, due to male emigration, many small-scale farms are *de facto* female headed. Many farming women lack access to credit, improved inputs, technical advice and market information.
- 17. The vulnerability of the Tunisian grain value chain to global shocks in commodity markets is further compounded by increasing rainfall variability due to climate change.** Annual wheat production is extremely variable and highly correlated not only with the quantity but also the timing of rainfall. Climate change analyses for Tunisia projects that the frequency of dry years in the country could increase to 52 percent (10 of 19 years) between 2031 and 2050 under the RCP4.5¹³ scenario and to 79 percent (15 of 19 years) under the RCP8.5 one.¹⁴ Drought in Tunisia is likely to be more frequent and severe in the future under both scenarios. Thus, agricultural practices in Tunisia need to be better able to adapt to both the short-term trends related to climate variability and the long-term ones associated with climate change. With recurrent shocks and increasing droughts, Tunisia needs to strengthen the resilience of its grain subsector to multiple shocks by promoting climate-smart agriculture, especially the introduction of drought and heat resistant wheat and barley varieties.

Food policies and the grain value chain

- 18. The GoT's food security strategy includes several pillars that recognize the role of both imports and domestic production in the country's food balance, and also seeks to protect the most vulnerable consumers.** The strategy includes the following instruments: (a) price stabilization and support to producer price for key staples

¹⁰ Institut Arabe des Chefs d'Entreprises.

¹¹ Economic Research Forum, 2014, Tunisia Labor Market Panel Survey.

¹² *Forum Tunisien pour les Droits Économiques et Sociaux*, 2020, *Étude sur les petites exploitations agricoles en Tunisie*

¹³ Representative Concentration Pathway (RCP) 4.5 and 8.5 are two of the scenarios for long-term global greenhouse gases emissions

¹⁴ World Bank Group, 2015, Climate variability, drought and drought management in Tunisia's agricultural sector.

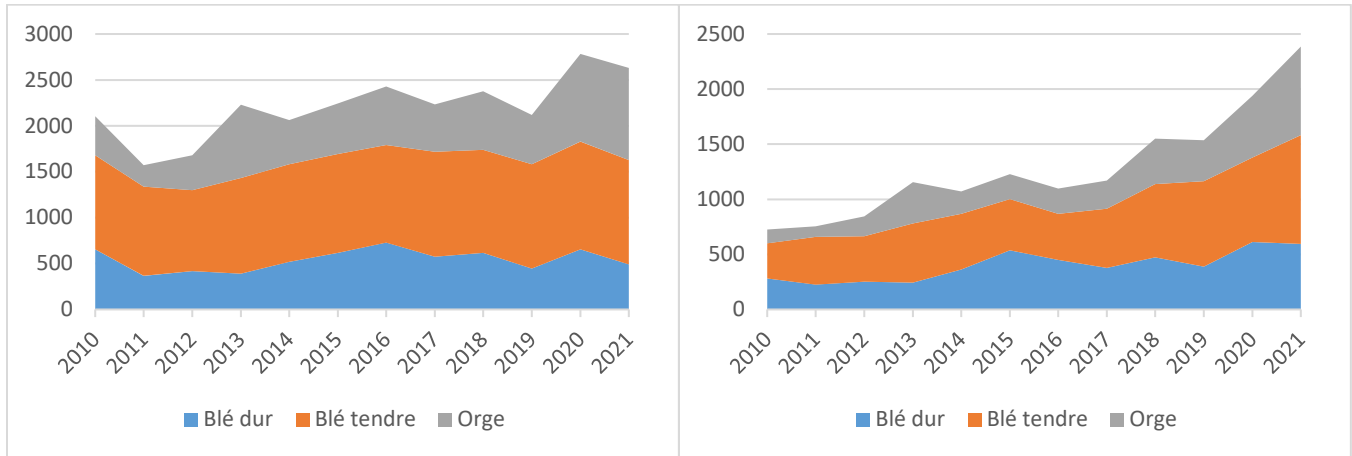


(e.g. wheat), combined with the management of imports and buffer stocks; (b) subsidies to ensure availability and low price of priority food products (e.g. wheat-based products and vegetable oil); (c) support to agricultural production; (d) valorization of public lands, (e) general support to the rural economy (roads, rural electrification, water supply) and (f) social safety nets.

- 19. The *Office des Céréales* (OC) plays a central role in Tunisia’s food security strategy.** The OC was created in 1962 with the core mandate to ensure a stable supply of grain on the domestic market through domestic grain harvest collection and strategic imports and storage of two-months of national consumption. The *Caisse Générale de Compensation* (CGC – General Compensation Fund), created in 1970, is responsible for price stabilization by coordinating compensation among operators of the different segments of the grain value chain between market and administered prices.
- 20. GoT recognizes that the impact of the current crisis is exacerbated by pre-existing structural weaknesses in the grain value chain and the associated public support to producers and consumers. The Government is committed to addressing these weaknesses through policy reforms.** Over the past two decades, the GoT has maintained a domestic price support policy for food security, which includes a guaranteed farm-gate price for wheat and fixed consumer prices for grain products. Ensuring continued access to bread is critical for vulnerable households who rely on low-price subsidized bread (“*gros pain*”) as their main food item at a time when their purchasing power is decreasing. There is a de facto segmentation of the domestic market for wheat-based products, with the subsidized bread distributed by bakeries located in disadvantaged neighborhoods (“*gros pain*”) mainly consumed by the poorest categories of Tunisians (Figure 4, paragraph 47); subsidized flour distributed to those registered bakeries is of lower quality, and as a result it cannot be used for the production of more refined wheat-based products (consumed by wealthier households). On the producer side, guaranteed prices are below global wheat market prices (70 percent of 2021 average prices), hence wheat production areas have been decreasing and productivity is stagnating (half of world averages). Grain subsidies to maintain low prices for consumers represent about 2.2 percent of GDP. Though production might be over-estimated and despite occasional informal exports to Algeria where wheat prices are higher, OC collects less than 60 percent of wheat production because wheat producers prefer to sell their wheat for feed production. Meanwhile, imports in volume have grown by 25 percent following increasing demand (Figure 2) and import costs have increased dramatically mainly due to the Tunisian Dinar depreciation by more than 50 percent between 2010 and 2021 (Figure 3). Annex 2 provides details on the grain value chain and the associated public support.



Figures 2 and 3: Grain imports evolution in volume ('000 tons) and costs (TND million)



Source: ONAGRI statistics (Blé dur: durum wheat; Blé tendre: soft wheat; Orge: barley)

- 21. The GoT sees the current crisis as an opportunity to start reforming public support to the grain value chain and food subsidies to address distortions and strengthen resilience to shocks.** The objective of the proposed reforms is to efficiently stimulate domestic production while reducing the fiscal burden of food subsidies in a context where public spending is seriously constrained. This year, the GoT has already announced a 40-percent increase of the farm-gate price to foster grain production and productivity improvement. The GoT also intends to progressively phase out food subsidies and introduce targeted cash transfers to compensate lower income households for the loss in purchasing power. This will have a significant impact on the budget, while certainly reducing food waste and improving the nutrition of poor and vulnerable families by reducing over-consumption. Finally, the proposed reforms would also include refocusing the role of the OC, further opening the door for greater involvement of the private sector in the grain value chain. The Government has requested support, under the proposed operation, to develop a time-bound implementation plan for those reforms.
- 22. Tunisia has made significant progress on the overall nutritional status of its population; however, increasing overweight and obesity rate point to the need for improved diets.** Progress have been achieved in terms of maternal, infant and young child nutrition, with low prevalence of stunting and wasting among children under five years of age. However, overweight and obesity are becoming serious issues with about 63 percent of the adults estimated as overweight, and 27 percent as obese. This might be explained by improved access to food in particular in urban areas, in a context of increased urbanization and reduced physical activities.
- 23. The proposed reforms, while improving the efficiency of public spending, would also foster greater diversification of diets and better nutritional outcomes.** On the consumer side, low prices have led to an apparent overconsumption of grain products. Between 2017 and 2021, the average annual consumption of durum and soft wheat was 278kg per person (representing 50 percent of energy intake), the highest in the MENA region. This leads to some nutritional deficiencies especially in the poorest families, and to large scale waste of grain products. This consumption level might be overestimated though, due to informal reselling and export of subsidized products made of durum wheat (pastas, couscous).
- 24. The GoT's social protection program relies on a cash transfer mechanism to shield vulnerable people from economic shocks.** The social protection program provides unconditional permanent cash transfers to 265,000



households who lack financial and family support. Since 2019, the Government has established the new AMEN¹⁵ integrated social safety net program, partly supported by the World Bank through the COVID-19 Social Protection Emergency Project (P176352) to improve the efficiency of the social protection system to address poverty by reducing system fragmentation, increasing the coverage of vulnerable households and creating a social registry of beneficiaries. The AMEN social program also helps poor and vulnerable households access socio-economic services (education, housing, employment, etc.).

- 25. The proposed operation and the social protection program will provide a coordinated and complementary response to the current crisis.** The proposed operation will focus on the response needed on the supply side to avoid a disruption of grain availability (barley and wheat) on the domestic market and to mitigate the impact of high inputs prices on small dairy and grain producers. It will also lay out options (and the feasibility) to use the existing cash transfer system as a food subsidy compensation mechanism to accompany a phase out of the food subsidies over time. The cash transfer system was used to provide emergency assistance during the COVID-19 pandemic and it is being expanded to reach 10 percent of the population.

C. Relevance to Higher Level Objectives

- 26. The project is consistent with the “WBG response to global impacts of the war in Ukraine: A proposed roadmap”.** The proposed WBG roadmap includes support to finance grain imports when certain conditions are met but also increase grain storage capacity and fostering regional cooperation to address disruptions in the food and fertilizer markets. Interventions will aim to ensure that the poor have access to food by scaling up social safety nets, providing support to food producers, and improving the resilience of smallholder farmers.
- 27. The project design follows several filters and criteria detailed under Project Description in Section II B** – among others, to ensure that grain purchases remain temporary and below historical levels and do not lead to hoarding, that project support benefits the poor and vulnerable, and that the World Bank’s response is closely coordinated with that of other development partners. **The project design also recognizes the exceptional nature of the current crisis and of its impact on Tunisia** with short term emergency measures aimed at protecting poor and vulnerable segments of the population against the fallout of the war in Ukraine.
- 28. The proposed project is aligned with the World Bank Group (WBG)’s twin goals of ending extreme poverty and promoting shared prosperity.** Through the proposed immediate response and medium-term actions to improve resilience to shocks, the project seeks to minimize the effects to vulnerable populations from the compounded effects of the COVID-19 pandemic and the current market disruptions and price hikes caused by the war in Ukraine. The short-term objective is to secure input supply for dairy and grain production and to ensure affordable access to bread for the poor and vulnerable segments of the Tunisian population, thus ensuring inclusion and social stability in line with the WBG Tunisia Systematic Country Diagnostic (SCD, 2015) and Country Partnership Framework (CPF FY2016-2020).¹⁶ In addition, the proposed project will guide and support a transition towards a more market-driven and private sector-led grain value chain in line with the CPF’s ambition of reducing state interventions in the economy and fostering private sector participation. As such, the proposed project will also align with the 2023-2027 CPF, under preparation, which will place emphasis on strengthening resilience and inclusion for more equity, while improving SOEs’ financial performance and fostering private sector investments.

¹⁵ AMEN means safety in Arabic

¹⁶ World Bank Group, 2015, Tunisia: Systematic Country Diagnostic, and World Bank Group, Country Partnership Framework for the Republic of Tunisia for the period FY 2016-2020, April 19, 2016.



- 29. The project is aligned with the WBG Middle East and North Africa (MENA) Strategy.** The project reflects the priorities of the WBG MENA Enlarged Strategy, which focuses on harnessing human capital, leveraging digital technologies and Maximizing Finance for Development (MFD). Improving the policy and regulatory framework of the food system to promote private investment to create jobs in agri-food value chains would contribute to the MENA strategy pillar that aims to renew the social contract. An improved grain reserve management strategy will contribute to improving resilience to climate and market shocks. The project also aligns with the WBG MNA Climate Action Plan 2021-2025 under the first transformation area - scaling up investments with a view to strengthening food security in Tunisia and improving food systems' resilience to climate change.
- 30. The project will directly respond to the primary objective of the GoT to ensure food security while addressing some of the overdue structural reforms in the food system.** Food security remains one of the GoT's strategic goals with the ambition of ensuring access to a safe, stable, affordable and nutritious supply of food at all times. The OC is a central pillar of the country's food security strategy. The project will help lay the groundwork for modernization of OC's assets and operational modalities while revisiting and refocusing its core mandate. Structural reforms to be prepared under the project will contribute to improving the financial situation of OC and CGC and will thus strengthen the resilience of the grain supply system.

II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

- 31.** The project development objective is 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.
- 32.** The project development objective recognizes that the project provides an exceptional response to the sudden and unprecedented market disruptions resulting from the war in Ukraine and the risks that they present for the food security of vulnerable populations and for small farmers. Emergency measures focus on uninterrupted access to inputs for small farmers to secure the next cropping season and for continued dairy production in a context of supply disruptions and price hikes both globally and on domestic markets, and access to bread, as the main source of caloric intake for the poor and vulnerable segments of the population. The project development objective also recognizes that, beyond the short-term response, Tunisia needs to strengthen its resilience to future food crises, including through reforms along the grain value chain. Resilience would be measured through: (a) strengthened governance of the grain value chain; (b) improved food security policies including better targeting and efficiency of existing programs, aiming at achieving better nutritional outcomes for the poor; and (c) improved agricultural policies related to the grain value chain.

PDO Level Indicators

- 33.** Achievement of the PDO will be measured through the following indicators:
- (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.

34. The availability of data on grain stocks, imports and production to the public is an essential measure to increase the governance and transparency of the grain value chain in Tunisia. Similarly, the time-bound food subsidy reform implementation plan will be a critical instrument to guide the sequencing of reforms during the project implementation period and beyond. The project will also monitor the number of small farmers with access to improved seeds and the number of smallholder dairy producers with access to barley through the project (both indicators disaggregated by gender). The project will monitor continued access to affordable bread by the vulnerable population (percentage of vulnerable households with continued access to affordable bread; and percentage of bakeries registered in poor neighborhoods with continued supply of bread). The results framework includes citizen engagement indicators.

B. Project Components

35. **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 also support reforms of the governance of the wheat value chain, in particular the modernization of the OC and of its role. 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. World 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.).

36. **Key filters and criteria applied to the design of the project recognize the exceptional nature of the proposed World Bank emergency response in the context of the market disruptions resulting from the war in Ukraine and include the following:**

- (a) **Close coordination with partners.** As explained in section E, paragraph 62, the World Bank's response is part of a strong, donor-coordinated response to the crisis across all the elements of the project support. The World Bank is funding part of the wheat seeds required for the next planting season and barley for small dairy producers, while other donors and the GoT will finance fertilizer and agricultural extension services to producers; the World Bank is also financing part (less than one third) of the wheat import needs as the first response for the third quarter of 2022 as requested by the GoT, with the rest of the financing gap filled by other partners over the remaining course of the year from September to December 2022;
- (b) **The country has experienced a significant disruption to food supply** – due to the disruption of established



imports from the Black Sea region, price hikes and the financial situation of the OC (inability to secure guarantees for international grain purchases). Tunisia is also experiencing difficulties to secure grain import contracts due to increasing competition on global markets, demonstrated by low response to tenders. The project will finance *on a temporary basis* the purchase of barley (feed) equivalent to under one month of domestic consumption (approximately 75,000 metric tons depending on purchase price) and soft wheat equivalent to under one month and a half of domestic consumption (approximately 150,000 metric tons depending on purchase price¹⁷) during the first three months of implementation, to minimize immediate socioeconomic impacts of import disruptions and to ensure a return to food security in the medium-term. Tunisia currently does not hold sufficient domestic stocks of soft wheat (under one month of consumption) and is dependent on the continuation of regular purchases from the global market to cover its wheat consumption needs with possible domestic shortages by end-July 2022. Timely financing and the use of World Bank financing are expected to send positive signals to potential suppliers (as well as the provision of Letters of Credit by the World Bank) and allow other donors to come in based on the established World Bank-project system;

- (c) **The project has a reasonable likelihood of ensuring access to food on affordable terms to the most vulnerable.** Under Component 2, seed and barley distribution will primarily target smallholder farmers who represent the largest categories of grain and dairy producers. The existing distribution mechanisms ensure an equitable allocation of certified seeds and barley to the different producing areas and allocate a maximum quantity of seeds and barley per producer to prevent elite capture by larger producers. In terms of wheat, the subsidized bread distributed by bakeries located in disadvantaged neighborhoods (*“gras pain”*) is mainly consumed by the poorest categories of Tunisians as shown in Figure 4 (in addition, subsidized flour distributed to those registered bakeries is of lower quality, and it cannot be used for the production of more refined wheat-based products); the project, through OC, will carry out monitoring and surveys to confirm that bread remains widely accessible to poor and vulnerable households through structured surveys to monitor the continued access through bakeries in poor neighborhoods;
- (d) **Adequate measures are in place to address fiduciary/corruption risk and optimize efficiency.** The project includes provisions to ensure close monitoring of grain and seeds purchase and distribution, including beneficiary access monitoring surveys. The project will assess existing monitoring and compliance systems and strengthen them, including through additional monitoring mechanisms with local partners and civil society organizations to further enhance the real-time feedback on the value chain performance. The GRM will ensure that complaints related to the distribution system are promptly addressed and the system adjusted to reflect identified gaps;
- (e) **No retroactive financing for the procurement of grain.** Procurement of grain will follow existing procedures, adjusted for alignment with World Bank Procurement Regulations, and the project will not use retroactive financing.

37. The project will consist of three complementary components combining the short-term response with reforms to ensure greater resilience of Tunisia to food crises, as described below.

Component 1 – Emergency support to farmers (US\$60 million)

38. This component will aim at cushioning the impact of increased agricultural input costs on production costs of small dairy and grain producers. The project will finance: (a) the temporary import of barley as feed for the

¹⁷ This represents an insignificant share of global wheat trade (less than 0.05 percent)



continuation of dairy production (feed costs are the main production cost item representing over 50 percent of dairy production costs), and (b) access to improved, climate-resilient seeds for small wheat producers to secure the next planting season in October 2022.

39. The project will help procure an estimated quantity of 75,000 metric tons of barley for smallholder dairy producers (US\$35 million). World Bank financing and provision of Letters of Credit will enable Tunisia to continue barley imports in the short-term. Dairy production is an important part of the rural economy and an essential source of income for smallholder farmers, with dairy products also contributing to households’ protein intake. To feed their cattle, dairy farmers rely on their own fodder production and open grazing areas, but they purchase supplemental barley to ensure higher productivity and achieve tradable surpluses. Barley procured under the project will cover under one month of dairy producers’ fodder needs and will complement the upcoming domestic harvest which is expected to cover up to two months of consumption. The barley procured by OC will be sold through accredited input suppliers who receive monthly allocations determined by a commission led by each Governorate and composed of farmer representatives, the Regional Agriculture Development Directorate (CRDA) and OC representatives, and the local representative of the Ministry of Trade. Dairy producers who have registered to benefit from barley sold through this system are notified of their quota based on the number of heads and capped to a maximum quantity per producer. Because of the limited quantities available and the quota system, barley is mainly purchased by smallholder dairy farmers who have a limited number of heads. Among the 112,000 dairy producing households, 90 percent have less than 10 heads of dairy cattle and are the main beneficiaries of OC’s barley distribution system. It is thus estimated that at least 100,000 small dairy producers will benefit from the barley procured by the project.

Table 2: OC’s grain imports as of mid-May 2022 (Metric tons and million US\$)

Type of Grain	2022 Import Plan (Metric tons)			Contracts signed and financed			Urgent orders to be financed (July-September 2022)		
	Metric tons	Price (US\$/ton)	Million US\$	Metric tons	Price (US\$/ton)	Million US\$	Metric tons	Price US\$/ton)	Million US\$
Durum Wheat	550,000	650	358	350,000	677	236	-	-	-
Soft Wheat	1,142,000	350	400	330,000	400	132	425,000	425	180
Barley	1,000,000	300	300	203,000	367	74	375,000	400	150
Total	2,692,000		1,057	758,000		442	800,000		330

Source: *Office des Céréales*

40. In coordination with other donors’ activities (fertilizer purchase), the project will also finance the supply of 40,000 tons of quality wheat seeds to secure the next planting season (US\$25 million). The objective is to secure the forthcoming durum wheat planting season that will start in October 2022 and prevent production contraction that could lead to a further increase in food import needs, while supporting investments in productivity increase. Access to quality seeds is of concern to many grain producers. The *Institut National de la Recherche Agronomique de Tunisie* (INRAT - Tunisia National Agriculture Research Institute) has developed different varieties suitable for specific agro-ecological zones with enhanced climate-smart traits, notably water- and heat-stress resistance. These varieties are being multiplied by specialized producers under the supervision of two farmer cooperatives¹⁸

¹⁸ “Société mutuelle centrale des semences” and “Société Mutuelle Centrale de Semences et Plants Sélectionnés”



and two private companies (SOSEM and TUNIFERT).¹⁹ The whole grain seed multiplication and distribution system is overseen by MAWRF's technical services to ensure both quality and equity, while supporting the emergence of professional farmer organizations and private companies able to independently manage and finance seed multiplication and distribution. The existing seed cooperatives and private entities are progressively developing their business in a context where farmers' demand for certified seeds remains volatile due to the cost of the investment and the recurrent difficulties to access credit for agricultural activities. These cooperatives and companies are also facing financing difficulties for seed purchases in the current context and rely heavily on OC for prefinancing the purchase of multiplied seeds. To mitigate the impact of current high prices on seed and grain producers, and to maintain access to certified seeds for the upcoming planting season, the project will help OC purchase the grain seeds multiplied by seed producers during the 2021/2022 cropping season, finance their cleaning, sorting and packaging (preparation of certified seeds), and their distribution at subsidized prices to small farmers through selling points mandated by OC at the start of the 2022/2023 season.

- 41. The production of certified grain seeds is regulated by the GoT with OC as the guaranteed buyer of multiplied seeds and the companies specifically accredited for certified seeds processing.** Seeds companies are accredited by the GoT on the basis of established general conditions and rules, and the duration of the accreditation is three years renewable subject to satisfactory evaluation. The seeds companies sign an agreement with OC to receive basic seeds from INRAT and organize multiplication through the existing network of around 400 farmer seeds multipliers who, in turn, must also comply with technical requirements. Seeds multipliers are more advanced grain growers with larger acreage and land that meet stringent seed multiplication requirements. They receive technical support from seeds companies. An annual decree sets the price and other terms and conditions for the purchase by OC of seeds multiplied by grain farmers and the price paid to seeds companies for the processing to certified seeds. The final steps of the process are the certification by the GoT's seeds authorities and the transportation of certified seeds by the four seeds companies to designated selling points where producers can access certified quality seeds at a subsidized price.
- 42. As a result of project support, it is expected that the utilization rate of certified seeds by small farmers would increase to 25 percent from 17 percent in 2021.** This year's seed production is expected to reach 50,000 tons that should give 40,000 tons of certified seeds, after cleaning, processing and certification. This activity will benefit an estimated 50,000 small grain producing households (approximately 300,000 people). Under component 3, beyond the emergency support for the next planting season, the project will provide technical assistance to the GoT to move towards a seed system fully managed by private entities and entirely financed by commercial banks under MAWRF's technical and quality control oversight.
- 43. The existing barley and seeds allocation mechanisms will ensure accessibility to smallholder farmers, who are the main providers of domestic grain and dairy products.** Domestic grain production relies on approximately 250,000 grain producing farms²⁰ (50 percent of Tunisian farms), of which 62 percent are smallholder farmers. These farms usually purchase certified seeds that they will recycle every two to four years. MAWRF agricultural extension services will deliver technical advice to grain producers for the proper use of these improved wheat varieties. At the beginning of the cropping season, a distribution plan is formulated by each regional directorate of MAWRF to ensure an equitable allocation of certified seeds and barley among the different producing areas. Quotas per producer are established to prevent capture by larger and wealthier producers.

¹⁹ "Société des Semences Méditerranéennes" and "Tunisie Fertilisation", Tunisian companies accredited for grain seeds multiplication.

²⁰ Located in the agro-ecological zones suitable to grain production (northern and central parts of the country).



- 44. The project will ensure equal access to barley and certified seeds to both men and women producers and will ensure that female-headed farms are properly registered and informed through the mobilization of female extension agents.** A recent study from the Center for Agriculture and Bioscience International²¹ revealed that in Tunisia: i) women are more involved in livestock and agricultural production but their role is not properly recognized; ii) climate change has decreased the production of fodder and feed and increased dependency on the purchase of feed, but also led to increased women's workloads as they tend to be responsible for feed collection; iii) women do not receive government's support, including through subsidized feed, to meet their specific needs; iv) women report different issues in relation to access and benefit from extension services, including training – e.g. women may prefer to deal with female extension agents.
- 45. OC, through MAWRP regional directorates, closely monitors the allocation and sale of seeds and barley, and a complaints mechanism is in place to report shortages and leakages** (e.g., purchase by large producers). The project will support additional field visits by OC's central level staff to monitor seeds and barley availability and accessibility to smallholder farmers (including women) and strengthen monitoring along the distribution chain. This will be complemented by additional surveys (financed under component 3) to collect farmers' opinions and flag any availability issues. OC monitoring and surveys will provide gender-disaggregated data, including the number of female-headed farms having accessed barley and certified seeds. Surveys could also include women's perception on their workload to record any reduction in the time dedicated to feed collection.

Component 2 – Emergency purchase of wheat for food security (US\$60 million)

- 46. Along with parallel funding from other donors, this component will aim at securing soft wheat purchases to avoid bread supply disruption in the third quarter of calendar year 2022.** It will finance the first response support for the purchase of an estimated quantity of 150,000 tons of soft wheat, equivalent to under one month and a half of consumption (the final quantity will depend on prices) to secure orders and contracts in a context where market conditions and price evolution are difficult to anticipate. As of mid-May 2022, OC has secured contracts for the import of 330,000 tons of soft wheat only and needs to secure the purchases of another 425,000 tons just to cover the third quarter of 2022 (Table 2 above). This component will help secure the provision of soft wheat (in particular, through Letters of Credit provided by the World Bank) to avoid any interruption in the supply of bread in the domestic market and its direct impact on the poor. The proposed combined donor support will cover the next three months, with EIB- and EBRD-financed purchases phased in starting in August 2022 to complement World Bank-financed purchases, to help OC ensure wheat imports until Tunisia's credit worthiness improves when GoT reaches an agreement with the IMF.
- 47. Soft wheat purchases will help secure the availability of affordable bread, essential to vulnerable households' diets, and thereby also safeguard social and political stability.** In the context of global grain market disruptions, reduced ability to access global markets on the part of Tunisia as a small buyer competing with larger players, could limit its ability to import the required amounts of grain and maintain bread access to poor and vulnerable segments of the Tunisian population. Ensuring continued access to bread is critical for vulnerable households who rely on low-price subsidized bread as their main food item at a time when their purchasing power is decreasing. There is a de facto market segmentation whereby the subsidized wheat flour is used to produce bread of lower quality standard at a fixed price²², the so-called "*Gros pain*" whose weight is 400g; the higher quality bread consumed by wealthier categories of consumers cannot be produced with lower quality wheat flour (or in limited proportion), and its price is not regulated. Household consumption distribution by decile

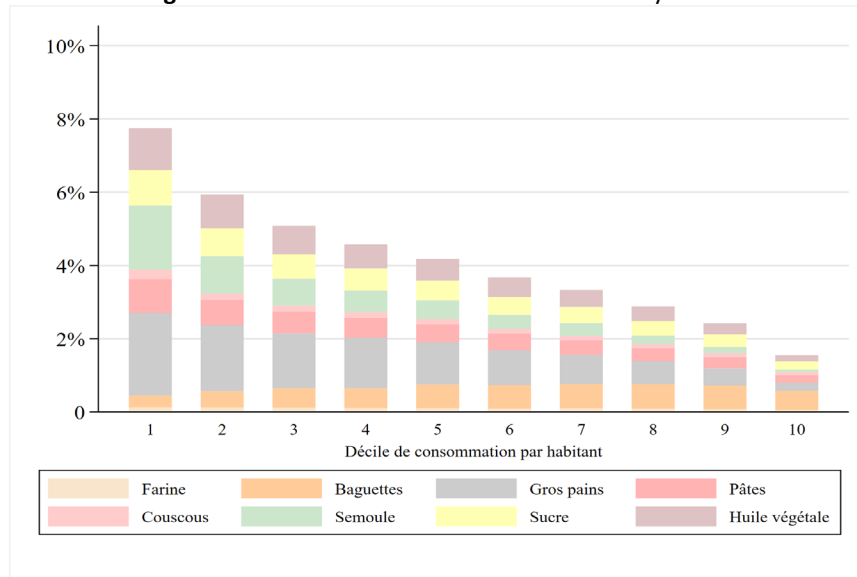
²¹ CABI, 2021, Gender, climate change and livelihoods – Vulnerabilities and adaptation

²² Currently TND 0,23/loaf with the subsidy amounting to 65 percent of actual cost.



shows that, among all the subsidized food items in Tunisia, the large 400g bread (“Gros pain” in grey in Figure 4 below) is proportionately more consumed by poorer households. Bread availability is also critical to female-headed households in a context where women and children are among the most vulnerable in relation to food access, especially for rural women heads of single-parent households.

Figure 4: Relative incidence of food subsidies by decile



Source: Simulation for 2022 based on the 2015 National Household Budget, Consumption and Living Standards Survey.

- 48. The project will use the existing government wheat purchase mechanism through OC.** The distribution of the wheat purchased under the project will follow the existing mechanism controlled by OC whereby mills present their monthly milling program before redeeming their validated orders from OC’s storage facilities at the price fixed by the government decree issued by the Ministry of Trade. OC receives compensation from CGC for the difference between the purchase price and the resale price. Mills will also sell flour at a fixed price to bakeries and receive compensation for the difference from CGC. The same system will apply for the sale of the final products to consumers at a fixed price and compensation by CGC to bakeries. Mills will use their network of registered distributors to deliver to specific bakeries to ensure traceability of flour distribution. The quantities delivered at each segment of the supply chain are recorded and controlled by OC and the Ministry of Trade. Random controls are carried out by the Ministry of Trade to check the precise reconciliation of wheat flour received by bakeries and bread sold to consumers. Bakeries in the lower-income areas produce, in high proportion, the 400g bread which is in high demand by poor and vulnerable families. This is widely observed both in the suburban areas of large cities and in the secondary cities of the inner regions. The project will strengthen the existing monitoring system to ensure the traceability of subsidized flour to the intended end-users.
- 49. Under Component 3, the project will undertake surveys to monitor bread availability and accessibility to poor and vulnerable households.** The World Bank team is preparing a series of surveys to assess the current food security situation more precisely focusing on the availability and price evolution of different food commodities (wheat-based products, dairy, oil, fruits and vegetables, poultry and eggs, etc.). A first round of surveys would be carried out in the coming weeks and will serve as a baseline for the project. This will help confirm whether bread availability and accessibility to poor and vulnerable households has remained stable during project implementation and will also enable the OC and Ministry of Trade to take remedial actions if unexpected patterns of bread distribution are observed. Structured surveys of registered bakeries in poor neighborhoods will also be



introduced under the project. Gender-disaggregated data will be provided, especially to measure the respective share of female/male-headed households with adequate access to affordable bread and will highlight any change in consumption patterns and gaps among single-parent households.

Component 3 – Improving resilience to food security shocks and project management (US\$10 million)

50. The project will aim at addressing distortions and structural weaknesses in the grain value chain and public support program to producers and consumers. The project will focus primarily on revisiting OC's mandate in ensuring food security while also providing support for the complementary reforms that will be needed with regards to incentives for domestic producers and food subsidies (which will also be supported through other instruments). A time-bound reform implementation plan will be prepared and public consultations on the plan will be carried out by the OC with support from the project. The project will help deepen the analyses of distortions and structural weakness, and advance reform options on the following core elements:

- (a) **Revisiting OC's mandate in ensuring food security**, notably by progressively transferring grain supply to private sector operators (e.g., grain imports) and refocusing OC on the management of a strategic grain reserve.
- (b) **Strengthening the resilience of domestic grain production to shocks and climate change by developing a new framework of incentives for grain producers** to support domestic wheat production and foster adaptation to climate change, including developing and empowering producer associations and cooperatives to progressively take full responsibilities of core support services to farmers (input supply, seed production, grain storage, etc.).
- (c) **Facilitating the gradual phasing-out of food subsidies** and transitioning towards other support mechanisms to poor and vulnerable households, to reduce the fiscal burden, while promoting improved nutrition through more diversified diets and reducing food loss and waste.

51. The existing Food Security Committee established at the Prime Minister's Office will oversee and guide the overall reform agenda formulation and implementation. This Committee is chaired by the Prime Minister and includes at Minister level the following Ministries: Economy and Finance, Trade, Industry, and Agriculture. It is currently monitoring the food security situation, supervising imports by OC and coordinating the preparation of the next cropping season. This Committee will guide and supervise the formulation of a multi-sector and cross-ministerial reform agenda focusing on the three core elements of OC modernization, food subsidy reforms and incentive framework for grain producers. Its role will be to commission studies required to inform decisions, to ensure broad stakeholders consultations prior to decision making, and to validate reform options while supervising implementation.

52. Modernizing OC will primarily consist of revisiting its role in ensuring food security and improving the efficiency and transparency of grain purchase and stock management. This will be the primary area of focus under this component for which the project will help in:

- *Revisiting OC's mandate and role in ensuring food security* with the objective to refocus its function primarily on grain supply regulation and managing a strategic grain reserve through targeted domestic grain purchase and complementary imports. The approach will include analyzing different options and their feasibility to progressively phase out OC's monopoly role in grain purchase. This will also include transferring some functions and services to private operators and stimulating commercial banks to directly finance private entities (seed multiplication notably) to reduce the financial burden on OC.
- *Strengthening the accuracy, effectiveness and transparency of grain stock management and grain purchase*



planning through digitalization. This will mainly cover procurement processes, global grain market monitoring, planning of grain deliveries and management of grain storage. This will be combined with the adoption of innovative remote sensing instruments to estimate domestic crop production more precisely to better anticipate grain purchase needs. The digitalization of OC core functions will help improve the overall efficiency and transparency of Tunisian's strategic grain reserve management, that will lead to the publication of a live dashboard of grain stocks, grain purchases and anticipated domestic production.

- *Assessing OC's storage capacities and other logistical infrastructure* (port, rail), including analyzing food waste and loss in the system and proposing mitigation measures. This assessment will also include an analysis of the optimal storage capacity to serve GoT's objective to ensure resilience to price and supply shocks. This will help prepare an energy-efficient rehabilitation, climate-proof construction and modernization plan with associated costs for further investments in grain storage expansion in Tunisia, including through OC and private operators.

- 53. In conjunction with OC's reforms, the project will help the GoT revisit the existing public support program to strengthen the resilience of domestic grain production to shocks and climate change.** Over the past decades, Tunisia has established a complex public support program combining a range of subsidies, price support and fiscal measures which have often been distortionary while their efficiency and equity have not been demonstrated. Improving the efficiency of these measures is becoming even more critical at a time of economic slowdown when increasing indebtedness and reduced fiscal space will lead to severe restrictions on public spending. The project will provide technical assistance to help establish enabling incentives to increase productivity, foster climate-smart agriculture adoption and eliminate distortions by revisiting the subsidy and price support system. This will include redirecting public investments towards the provision of public goods such as agriculture research and extension, climate-smart innovations and digitalization, capacity building for farmers' cooperatives, agriculture education, environmental protection, rural connectivity and market infrastructure. Redirecting state interventions in the grain subsector could bring private investments with multiplier effects and results in additional job creation and value addition in food processing, services and transport, especially for rural youth and women. This will include strengthening the capacities of the existing cooperatives in the grain sector to help them take full responsibilities in delivering critical services to farmers (input supply, seed multiplication and distribution, advisory services, pest monitoring and management, grain storage and commercialization, etc.). Empowering producer organizations will also facilitate the participation of producers in policy formulation and decision making, while correcting information and market asymmetries in the grain value chain.
- 54. The project will also advise grain subsector stakeholders on climate-change adaptation.** The recurrent droughts over the past decades have led to increased grain production volatility and have underscored the vulnerability of the existing farming systems to the projected impact of climate change in Tunisia. To foster climate change adaptation, the project will facilitate a broad debate on how to best promote climate-smart agriculture technologies and foster their adoption by farmers along with more environmentally sustainable approaches. It will help establish the incentives to stimulate the adoption of climate-smart agriculture and environmentally sustainable practices by Tunisian grain producers. It will also help explore options for innovative risk management instruments, such as insurance schemes and regional collaboration and harmonization of food security and commodity market policies.
- 55. The project will coordinate with other GoT's analyses already undertaken to prepare and implement a sequenced plan to phase out subsidies for grain products and assess options to diversify diets for nutritional outcomes.** As described in the context section, removing food subsidies would not only have a significant impact on the budget, but could also reduce food waste and improve the nutrition of poor and vulnerable families by reducing over-consumption. To ensure that the reform will not run counter to the Government's household



welfare objective, grain product subsidies are expected to be replaced with cash transfers to compensate lower income households for the loss in purchasing power. The GoT is designing a plan to that effect to be implemented in the coming years. The project will ensure consistency and complementarity with studies conducted to design the most appropriate food subsidy compensation mechanism and its phased implementation plan, including options to promote the diversification of diets and better nutritional outcomes for vulnerable populations. It will support coordination among key Ministries (Economy, Trade, Industry, Social Protection, Agriculture, Technologies, etc.), consultations with stakeholders and communication to the general public on the proposed reforms and strategies for building resilience to climate change impacts on food security and global food prices increases.

- 56. Component 3 will also support project oversight, coordination and implementation, as well as communication and consultations.** While project implementation will use OC's existing facilities and procedures, a Project Implementation Unit (PIU) will be established to directly manage and monitor project activities, and to ensure close oversight of fiduciary and safeguards requirements. The PIU will serve as Secretariat and technical support of the Steering Committee, with technical assistance resources allocated to facilitate broad regular stakeholder consultations regarding the time-bound reform agenda formulation and implementation. The project will support capacity building activities to strengthen OC's monitoring and evaluation and to conduct light surveys to check access to bread by most vulnerable households, as described under components 1 and 2.

C. Project Beneficiaries

- 57. The project will directly benefit smallholder farmers engaged in dairy and grain production as well as poor and vulnerable Tunisian households.** Producer support delivered by the project and by other partners will benefit farming households in rural areas where the proportion of poor is above the national average. Access to quality seeds and barley (as feed) will help farming households maintain their productive assets and prepare for the next planting season, thereby improving their productivity and incomes, while weather risks will be mitigated through the adoption of climate-smart seed varieties. Through grain purchases supported by the project, the poor and vulnerable segments of the population will benefit from continued access to affordable bread. In the prevailing context of a grain supply shock, the most vulnerable communities are going to be the hardest hit. The poorest and most vulnerable population groups in the country are among the most reliant on bread in their diets and food usually represents a large share of their family expenses. Lack of access to bread could then quickly have catastrophic food security implications for these groups and lead to exacerbated social tensions in an already fragile context. Grain producers (half of Tunisian farmers, see Sector Context) will also benefit from the proposed adjustments of the whole public support program to the grain value chain, with the objective of establishing better incentives for durum wheat production. Finally, all Tunisians from producers to consumers, as well as taxpayers, will benefit from a complete revision of the public support system to the grain value chain.

D. Results Chain

- 58. The project's long-term outcomes are expected to be:** (i) reduced import dependency through incentives to increase domestic grain production; (ii) more efficient, non-distortive and fiscally sustainable policy framework to strengthen food security and protect the most vulnerable households, including better supply and price risks management associated with domestic production and imports of basic agricultural commodities; (iii) enhanced participation of the private sector in grain import and distribution operations; and (iv) reduction of grain loss and waste, improvement in nutrition and increased farmer/ herder incomes with a focus on lagging regions.
- 59. The project aims, in the short-term, to mitigate the impact of high grain and input prices on producers and**



consumers in Tunisia, with a focus on the poor and vulnerable segments of the population; and, in the medium-term, to strengthen the country's resilience to food crises. The objective is: (a) to preserve dairy production by small farmers through barley purchases in a context of price hikes; (b) to ensure proper preparation of the next cropping season by small farmers through improved seed purchases; and (c) to urgently procure wheat to avoid supply shortfalls and to maintain the supply of bread in the domestic market, with a focus on access to affordable bread by the poor and vulnerable segments of the population. The project will also strengthen, in the medium-term, Tunisia's preparedness for addressing future commodity market shocks. This will be achieved under Component 3 by setting the stage for further improvement of the country's physical and institutional capacities to manage supply and price risks associated with domestic production and the import of basic agricultural commodities. This will include capacity improvements leading to an expanded private sector role in handling imports, and the refocusing of the OC's activities on the management of strategic reserves. These measures will be accompanied by enhancing the GoT's capacity for evidence-based analysis to guide targeted investments and policy reforms in agri-food commodity value chains.

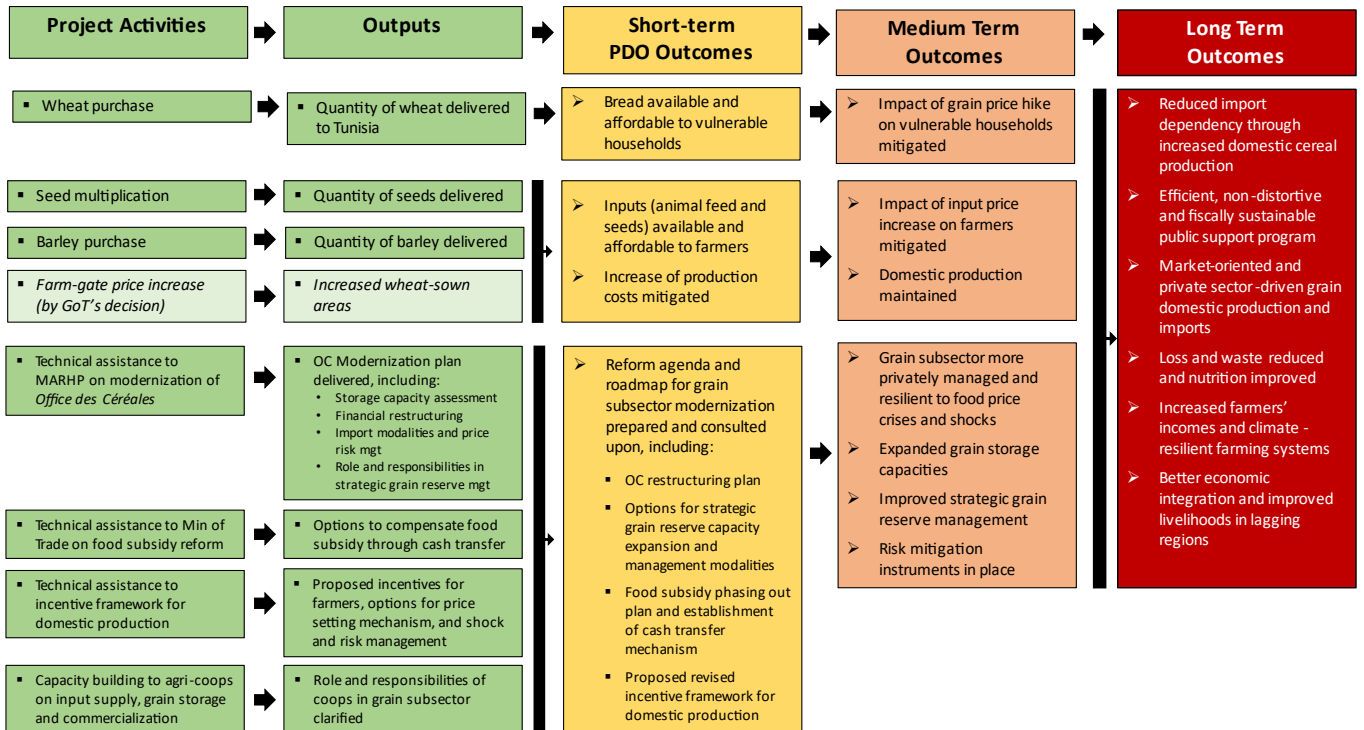
60. To achieve the above, the following gradual approach has been embedded in the project design:

- (a) *In the short term (0-9 months)*, the focus will be on: (i) ensuring that barley is accessible to small dairy producers, certified seeds are available for the forthcoming cropping season and the supply of wheat is maintained to ensure continued access to affordable bread for the poor; (ii) developing options for improving import grain supply chain logistics, stock management and grain import governance; and (iii) assessing the efficiency of the food subsidy system and its distributional effect;
- (b) *In the medium term (9-18 months)*, the focus will be on (i) developing a plan for the rehabilitation and potential expansion of grain storage capacities to buffer market shocks and reduce losses in the value chain; (ii) refocusing OC's activities on the management of the strategic reserves; (iii) evaluating risk management tools for mitigating market risks; and (iv) engaging national stakeholders around policy options to revise food policies for better nutritional outcomes, and mitigate future shocks.
- (c) *In the medium to long-term (over 18 months)*, the focus will be on (i) providing technical support for the implementation of fiscally sustainable policy measures aimed at strengthening food and nutritional security, supporting grain producers and protecting vulnerable households; (ii) phasing out subsidies and a concomitant expansion of cash transfers; and (iii) implementing risk management tools for basic agricultural commodities and building climate resilience.

61. Critical assumptions for achieving the expected project objectives include: (i) macro-economic stability will be maintained in Tunisia during project implementation; (ii) no new, distortionary price controls or agricultural subsidy measures will be implemented in response to the continued volatility in international markets for basic agricultural commodities; and (iii) there will be full ownership for a managed transition to better policy approaches, including the OC reforms and the gradual transition to a different mix of food policy instruments.



Figure 5: Project Theory of Change (TOC)



E. Rationale for Bank Involvement and Role of Partners

62. A coordinated multi-donor emergency response (equivalent to US\$460 million²³) has been prepared in response to Government's request in March 2022 for urgent assistance to respond to this crisis. The World Bank involvement is proposed as part of a donor-coordinated response to the emergency grain supply crisis. As the war in Ukraine is unfolding, Tunisia is confronted with difficulties in securing supplies from a volatile and competitive global grain market, an inflated import bill and serious risks to its domestic production. GoT has requested donor support to finance wheat imports to avoid short-term supply disruptions and agricultural inputs to provide timely support to Tunisian farmers, notably to properly prepare the next planting season in the fall and to safeguard domestic production. The GoT has also requested donor support for reforms of the food policy system, including the modernization of the OC. The emergency World Bank funding will help secure soft wheat purchase and affordable bread supply for the most vulnerable segments of the population, while securing the availability of quality seeds for the forthcoming durum wheat production season and barley for small dairy producers, and supporting key reforms related to Tunisia's food security policies.

63. The multi-donor response package includes short term assistance for grain and input purchases, silo rehabilitation, other support for the next planting season and support, at the GoT's request, for critical structural reforms to improve the overall efficiency of the grain supply chain and associated public support to producers and consumers. The proposed operation is expected to provide the first response to avoid an immediate disruption of grain imports, with other donors phasing in their support starting in August 2022 (Table 3). In addition, the African Development Bank (AfDB) is considering additional support for OC modernization through

²³ Based on information provided by partners as of early June 2022 and subject to adjustment

a Regional Food Crisis Response Facility.

Table 3- Multi-donor emergency response package²⁴

<i>Development Partner</i>	<i>Financing</i>	<i>Activities supported</i>	<i>Tentative timeline</i>
World Bank	US\$ 130 million	Grain and seed purchases, policy reforms	July-August 2022
EBRD	US\$ 150 million	Grain and fertilizer purchases	August-September 2022
EIB	US\$ 150 million	Grain purchases, silo rehabilitation	October 2022
EU	US\$ 20 million	Support for next planting season (extension)	September-October 2022
USAID	US\$ 10 million	Grain purchases	September 2022 (tbc)
Total	US\$ 460 million		

64. The World Bank has strong experience providing emergency response to supply shocks that combines emergency measures, building resilience to future shocks and technical assistance for reforms. The GoT is committed to progressively implementing needed reforms to improve the resilience of the grain value chain, including revisiting the OC's role and mandate and improving the incentives to stimulate domestic production. A farm-gate price increase has already been announced to bring grain prices paid to farmers closer to international reference prices. Other donors are interested to join the policy dialogue led by the World Bank to facilitate a shift towards a more fiscally sustainable management of food security in Tunisia, and to increase the developmental impact of the project. Their respective emergency responses, closely coordinated with that of the World Bank, would also include technical assistance to increase the Government's ability to improve domestic production and reduce the fiscal costs of grain imports and food subsidies, and to better anticipate and manage food security risks.

F. Lessons Learned and Reflected in the Project Design

65. The project builds on the following relevant lessons learned from past and ongoing World Bank Group responses to food and nutrition security crises, including the Global Food Crisis Response Program (GFRP), which was designed to address the 2008-2009 food crisis:

- (a) *Importance to balance speed with quality control:* the project leverages existing and well-functioning systems by financing activities through institutions with prior experience and capacity to prepare and implement the operation. This helps mitigate some of the potential risks related to the institutional, technical and fiduciary aspects of the proposed operation.
- (b) *Critical to ensure that the most vulnerable are targeted by emergency responses:* the project primarily reaches smallholder farmers and supports them through livestock feed and improved seeds. Also, the project would support access to the bread produced from the purchase of imported wheat which is of particular importance for the vulnerable population.
- (c) *Prioritize building back better approaches to increase both food production and enhance resilience:* the project is designed to strike a balance between the emergency response and increasing resilience to future crises.

66. The project takes into account the findings and policy recommendations of World Bank analytical work on

²⁴ Based on information provided by partners as of early June 2022



grain import supply chains in Arab countries. Recognizing that there is no perfect solution to mitigating grain import risks, the 2012 World Bank report “The Grain Chain: Food Security and Managing Wheat Imports in Arab Countries” called on Arab countries to adopt an integrated approach to managing price and supply risks associated with grain imports. While governments use safety nets to try and absorb price risk at the national level, many Arab countries are still adhering to strong pass-through mechanisms. In addition, poor logistics can result in supply-chain bottlenecks and product loss, both of which reduce supply chain efficiency and increase the cost of importing grains. Therefore, the report recommended that import dependent countries use targeted investment and policy reform to improve efficiency throughout the grain import supply chain, concentrating on strategic storage, logistics, and procurement. Strategic reserves provide countries with critical lead time to secure alternative grain supplies or supply routes during times of crisis. Strategic reserves can reduce domestic price volatility and the frequency of domestic price shocks. Importantly, the benefits of strategic reserves must be measured against the cost of maintaining them. Adopting a hedging strategy, using a mix of various instruments, would help governments better predict their future fiscal liabilities. The report also highlights the opportunity of cross-border collaboration to implement regional solutions.

67. To support more efficient and sustainable approaches to food security, the proposed operation is drawing lessons from past and ongoing analyses to help address structural weaknesses and distortions of the Tunisia grain value chain and food subsidy system. Over the past decade, studies have highlighted the vulnerabilities of the existing government program to support consumers and domestic grain production. Universal food subsidies not only constitute an unsustainable fiscal burden on the Government's budget, but they also lead to overconsumption of grain products. The OC import monopoly for wheat and barley prevents potentially more efficient commercial operations by private traders as observed for maize and other crop imports. The fixed price mechanism at the different segments of the grain value chain creates distortions, prevents efficiency improvements and leads to over-capacity of the agroindustry. At the same time, it does not provide the proper incentives to farmers to invest in grain production and to increase productivity. This project will support GoT by providing technical assistance (TA) to lay the foundation for structural reforms. Global experience also demonstrates the potential of digital tools to improve the overall efficiency and transparency of the grain supply chain, especially for grain procurement and stock management, and for domestic production monitoring and associated grain purchase planning.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

68. The oversight of the overall reform agenda will be with the Prime Minister's Office and the operational supervision of project implementation 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 responsible for external communication about reforms.



- 69. All Project activities will be implemented by the OC.** Under components 1 and 2, the OC will be responsible for grain and seed purchases. The OC is a public entity under the responsibility of MAWRF and it has well established grain procurement procedures that meet World Bank requirements with some slight adjustments described in section IV.B. 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). A dedicated PIU will be established in the OC's General Directorate and staffed with short-term consultants to directly manage and monitor project activities, and to ensure close oversight of fiduciary and safeguards requirements.
- 70. A Project Operational Manual** will be prepared within two months after effectiveness.

B. Results Monitoring and Evaluation Arrangements

- 71. OC will have the overall responsibility for the project's results monitoring and evaluation.** Its Monitoring and Evaluation (M&E) department will be responsible for collecting data on grain purchase progress, delivery and distribution from relevant sources, as well as capacity building provided under the project. Given the emergency nature and fast-track preparation of the project, the M&E baseline data will be based on the widely available statistical information, as well as output data available through project activities. OC will record the number and terms of contracts for procurement of grains under the project, including volumes and prices, and will ensure and track deliveries along the value chain, with support from the project to help strengthen those systems focusing on mitigating risks of fraud and corruption. It will record deliveries in volume and price to mills and collect data from the Ministry of Trade on deliveries to bakeries and sell to consumers. OC will organize and track deliveries of certified seeds procured under the project to farmers' cooperatives and agricultural input retailers and the project will strengthen the related monitoring system. It will record sales in quantities and prices to grain producers. The project will conduct surveys to monitor continued access to affordable bread by vulnerable households (in close collaboration with the social protection program) and access to certified seeds by smallholder farmers, with a focus on the integrity of the distribution systems. This will include surveys of poor consumers to verify continued access to affordable bread, and structured surveys of registered bakeries in poor neighborhoods.
- 72.** With regards to the wheat value chain, the project will assess the efficiency of the current monitoring system and support strengthening of the system based on the outcome of the assessment. Monitoring of the distribution system will be strengthened as needed by partnering with local agencies and civil society groups to ensure real time information on access and distribution. Other evaluations will include an evaluation of the efficiency of the food subsidy policies, including on nutritional outcomes for the vulnerable segments of the population. This evaluation will aim to provide recommendations on an improved set of policies to foster the diversification of diets for better nutritional outcomes, in particular for the poor.

C. Sustainability

- 73. The project will ensure sustainability through a combination of short-term and medium-term responses to the food crisis.** The project will first ensure an uninterrupted supply of animal feed to farmers, with a focus on small dairy producers, and continued access to affordable bread for consumers, especially poor and vulnerable people, through the financing of wheat and barley imports. The project will provide technical assistance to remedy the



structural weaknesses of the current grain procurement and production system that make it vulnerable to price and supply shocks and explore options towards diet diversification options to reduce the dependency on wheat. It will help design fiscally sustainable policy options to provide the enabling incentives to farmers to increase domestic grain production while adapting to climate change, and to rely on more financially viable procurement and storage of grain through private operators. It will also explore other risk management instruments that will make Tunisia more resilient to market and climate shocks. Finally, under component 3, the project will provide technical assistance to the GoT to move towards a seed system fully managed by private entities and entirely financed by commercial banks under MAWRF's technical and quality control oversight.

- 74. The combined emergency response of the World Bank and donors will help secure grain imports in the immediate short term, while laying the ground for an updated food security strategy.** Reforms supported under Component 3 should enable Tunisia to better respond to a prolonged disruption of grain markets. Beyond short-term support for grain imports by the World Bank and other partners, it is expected that the conclusion of negotiations between Tunisia and the IMF would lay the ground for medium-term solutions for the continuation of grain imports, through a program of broader reforms and a consolidated macroeconomic framework.
- 75. Institutional sustainability.** The project includes support to the proposed reforms of the OC which aim at revisiting its role in the governance of the grain sector and improving its financial sustainability. The OC will also benefit from capacity building under the project.
- 76. Environmental sustainability.** Project activities are expected to increase the resilience of domestic grain production to climate change. Technical assistance will also ensure that the reforms to be supported under the project fully incorporate climate and environmental considerations.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis (if applicable)

- 77. The project opted for a simple and well-focused technical design to help cushion the impact of global market disruptions.** It will use the OC's existing and well-established grain procurement procedures, adjusted for alignment with World Bank Procurement Regulations, and will rely on the OC's experienced staff. Beyond the urgent and immediate supply of grain and seeds, the project includes technical assistance to help carry out analytical activities, consultation and communication to properly design structural reforms that will improve the efficiency of the public program in support of the grain value chain, while reducing its fiscal costs and removing distortions. The design of component 3 builds upon the analytical work being carried out by the World Bank on the Tunisia grain value chain and the associated public support program by the World Bank Agriculture and Food Global Practice (GP) and the financial analysis of the OC by the World Bank Finance, Competitiveness and Innovation GP.
- 78. The project's benefits are expected to be two-fold in the short- and medium- terms.** Short term benefits will be achieved by preventing a shock in the availability of grains (barley and wheat) that would bear a high social and economic cost, in particular for the poorest households. Short- to medium term benefits will result from Tunisia's ability to strengthen the resilience to shocks of its grain procurement and production system, and from a more efficient and fiscally sustainable public support program. Other benefits include better diets and nutritional outcomes especially for the vulnerable segments of the population. Given the systemic adverse implications of grain and bread shortages, particularly the highly negative impacts on vulnerable households, the project will



have a significant positive impact in the short term as it will finance sufficient grain purchases to ensure uninterrupted supply. This will be achieved while at the same time paving the way towards a managed phase-out from the current price policies towards a more sustainable policy approach and a more resilient food system overall, in the medium term.

- 79. The project's benefits will complement those of the social safety nets and ensure that the right mix of instruments are used to address the current crisis.** GoT's social protection program relies on a cash transfer mechanism to shield vulnerable people from economic shocks. The social protection program provides unconditional permanent cash transfer to 265,000 households who lack financial and family support. Since 2019, the Government has established the new AMEN integrated social safety net program partly supported by the World Bank through the COVID 19 Social Protection Emergency Project (P176352) to improve the efficiency of the social protection system to address poverty by reducing system fragmentation, increasing the coverage of vulnerable households and creating a social registry of beneficiaries. The AMEN social program helps poor and vulnerable households access socio-economic services (education, housing, employment, etc.). This program is not designed, however, to provide a solution to the current grain import disruptions, which the project will do. Options (and the feasibility) to use the existing cash transfer system as a food subsidy compensation mechanism to accompany a phase out of the subsidies will be explored under Component 3. The project will work with the social safety net program as part of its activities to monitor the targeting of subsidized bread distributions and with regards to the proposed roadmap for reforms of food policy instruments.
- 80. Gender.** Gender gaps in Tunisia's population remain significant and women face substantially more obstacles than men in accessing jobs, credit, and property. They control fewer resources and are less likely to be formally employed. However, women play a prominent role in terms of food security at the household level. They are the ones who may decide to practice restrictive coping mechanisms by reducing their own food intake in favor of other family members in periods of crisis. Avoiding wheat supply disruption and ensuring bread availability will thus have a direct impact on women's nutritional status. Targeted surveys will help monitor women's access to bread and overall food security situation. This will inform the proposed grain subsector reform agenda formulation and ensure the inclusion of gender-specific concerns. The project will also help secure wheat seeds to family farms in a context where many farms are female headed and where access to improved inputs is lower for women farmers. Related, gender disaggregated indicators have been included in the Results Framework to monitor progress in closing existing gender gaps.
- 81. Climate co-benefits.** Under component 2, the project will generate climate change adaptation co-benefits through the dissemination of climate-smart wheat varieties that are better suited to local conditions and present improved performance under water stress. Under component 3, adaptation and mitigation co-benefits would arise from loss and waste reduction in a more efficient grain value-chain, and from energy efficient and climate-proof storage facilities rehabilitation and construction.
- 82. Citizens' engagement.** The project will ensure citizens engagement through the following interventions: (i) regular surveys to monitor continued access to affordable bread by vulnerable households and access to barley by smallholder farmers; and (ii) regular information and consultation on the proposed grain value chain reform agenda and roadmap, including communication with the general public to ensure broad-based understanding and adherence to the reform objectives and implementation steps. Related indicators have been included in the Results Framework.

B. Fiduciary

(i) Financial Management (details in Annex 3)



- 83. The financial management assessment carried out during project preparation determined that the financial management (FM) arrangements in place at the OC satisfies the minimum requirements under the World Bank Policy and Directive for Investment Project Financing (IPF):** The arrangements are therefore deemed adequate to provide, with reasonable assurance, accurate and timely financial management information on the status of the project required by the World Bank. The assessment covered the following Directorates: (i) Department of Finance and the Department of Accounting under the OC’s Secretary General responsibility; (ii) Budget and Management Control Department under the Deputy Managing Director responsibility; and (iii) the Internal Audit Unit. The assessment found that the OC has acceptable FM systems (governance bodies, internal audit unit, external auditing, and so forth), FM tools (e.g., several notes and instructions of the OC’s Management forming an adequate set of procedures of administrative, financial and accounting, including accounting software “ERP”), and adequate staffing arrangements in place to manage the project funds in an economic, efficient, and transparent way.
- 84. The residual FM risk is however assessed substantial mainly due to the following challenges and risk factors:** (i) the 2019 and 2020 audit reports were submitted to the Board of Directors with several months of delay and the external auditor expressed qualified opinions; (ii) a very high level of debt placing the company in a position of over-indebtedness that threatens OC’s sustainability; (iii) as under all emergency operations, there is a risk of by-passing rules and ex-ante controls to speed up procurement and payments; (iv) the nature and the design of the project that involves a multiplicity of beneficiaries geographically dispersed around the country and resulting in a large number of transactions expected; (v) capacity challenges of the OC as the proposed implementing entity which has no recent experience with World Bank FM procedures and requirements; (vi) the existence of expenditures and activities prone to irregularities including fraud and corruption (e.g. possibility of circumventing the internal control system with collusive practices such as bribes, abuse of administrative positions, mis-procurement); and, (vii) insufficient capacity and skills of the team designated to carry out the physical inventory of stocks (cereals and consumables).
- 85. The following mitigation measures have been incorporated into the project’s FM arrangements:** (i) development of the FM procedures covering physical inventory procedures to be included in the Project Operational Manual (POM); (ii) configuration of the existing accounting software “ERP” to allow the preparation of the project’s IFRs, including a physical progress report and annual financial statements; (iii) integration of the project transactions in the annual program of the internal audit unit of the OC; copy of internal audit reports shared with the World Bank on a quarterly basis; and (iv) selection of an external auditor on a competitive basis with Terms of Reference (ToRs) acceptable to the World Bank; the ToR will include physical inspections of inventory as well as a specific chapter on corruption auditing. The project will be required to prepare and submit an annual work plan and budget (AWPB) no later than November 30 of the year preceding the year the AWPB should be implemented. Unaudited interim financial reports (IFRs) will be prepared every six months and submitted to the World Bank 45 days after the end of each semester. Furthermore, the audit reports of the project’s annual financial statements will be submitted to the World Bank within six months following the end of each calendar year. Finally, the OC will submit to the World Bank a copy of the audit reports of the Office’s annual financial statements prepared by its “statutory auditors” (“*Commissaires aux comptes*”). Capacity development will be provided by the World Bank’s FM team. There are adequate legal, regulatory, and institutional frameworks in place in Tunisia on fraud and anticorruption, and the National Authority for Fighting Corruption (“*Instance Nationale de Lutte contre la Corruption*”) responsible for investigation of complaints relating to corruption is effective. For this operation, the OC will be required to develop and operationalize a “Governance and Accountability Plan” over the project implementation period. A training program on physical inventory procedures will be implemented to strengthen the capacity of the team in charge of the inventories.



86. Disbursement. Disbursement of project funds will be processed in accordance with the World Bank procedures as stipulated in the Disbursement and Financial Information Letter (DFIL), and the Disbursement Guidelines for IPF, dated February 2017. Disbursement methods of project funds will be: (i) Reimbursement; (ii) Advance; (iii) Direct Payment; and (iv) Special commitment.

87. Upon project effectiveness, report-based disbursements will be used as follows: (i) A segregated Designated Account (DA) would be opened at the Central Bank of Tunisia. Funds would flow from the World Bank into the DA account. The ceiling of the DA would be stated in the DFIL and replenishments will use transaction-based disbursement method (statement of expenditures). Withdrawal Applications will reconcile against previously withdrawn amounts.

(ii) Procurement (details in Annex 4)

88. Project procurement will be under the responsibility of the OC. Procurement under the project will be carried out in accordance with the World Bank Procurement Regulations for IPF Borrowers dated November 2020 (Procurement Regulations). The project will be subject to the World Bank's Anticorruption Guidelines ('Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants'), dated October 15, 2006, and revised in January 2011 and July 2016. The project will use the Systematic Tracking of Exchanges in Procurement (STEP) to plan, record and track procurement transactions. The project triggered emergency procedures in accordance with paragraph 12 of section III of the World Bank's Policy: Preparation of Investment Project Financing: situations requiring urgent assistance or capacity constraints, including the application of condensed procedures, deferral of procurement requirements to the project implementation stage, and use of flexible procurement measures in situations of urgent need for assistance or capacity constraints. A procurement plan has been prepared for the first three months of project implementation. It will be completed beyond the initial three months along with the finalization of the Project Procurement Strategy for Development (PPSD) during the initial stages of project implementation.

89. Under the project, the OC will procure grain in accordance with paragraph 6.51 of the Procurement Regulations (Commodities). The following procurement procedures may be used in this context, in addition to the limited international competitive tender: direct selection according to needs, request for quotations and use of national procurement procedures with increased thresholds and shortest bidding period. To be acceptable to the World Bank, OC's standard tender document will be adjusted to reflect, among others, the following provisions: Eligibility requirements and conflict of interest provisions in accordance with paragraphs 3.21-3.24 and 3.14-3.17 of the Procurement Regulations, respectively; fraud and corruption provisions and the World Bank's right to audit. The payment of grain purchased and shipped shall be made using the Special Commitments method (Letter of Credit by the World Bank) at the request of OC in accordance with the terms stipulated in the signed contract. OC will maintain all relevant records for the World Bank's audits, when requested. The World Bank's standard review thresholds for substantial risk projects shall apply to the project. The contracts for the procurement of wheat and barley will be subject to prior review regardless of value and there will be no retroactive financing. Procurement for consulting services for the technical assistance proposed under component 3 will be conducted by OC in accordance with World Bank Regulations. There will be no retroactive financing under the project.

90. Application of Anti-Corruption Guidelines where advanced procurement is used. Consistent with the World Bank's procurement policy, all contractors, suppliers, and consultants receiving financing under the project will have to comply with the World Bank's Anti-Corruption Guidelines (ACGs). This means that the World Bank will be able to audit, investigate (through INT), and sanction such contractors/suppliers/consultants if they are determined to have engaged in fraud and corruption. These requirements will equally apply to advanced



contracting under the project, which can finance eligible contracts for bidding processes initiated or concluded by the Borrower prior to the signature of the loan agreement, for which contracts have not yet been signed, if they comply with the World Bank’s procurement requirements. To qualify a given contract for such advanced contracting, the Borrower must ensure that it is subject to ACGs. However, it would not be possible for the Borrower to extend the application of ACGs to losing bidders with whom it has no relationship once the contract is awarded to someone else (when the bidding is carried out under the World Bank’s procurement rules, ACGs extend to all bidders participating in the process, not just the winning bidder; this enables INT to investigate allegations of collusion among bidders, etc.). A waiver with respect to the application of ACGs to such unsuccessful bidders is therefore sought from the Board of Executive Directors.

91. Procurement risks are rated substantial. Key risks include the absence of World Bank-acceptable Procurement Documents for commodities, risks associated with extremely short bid validity, highly volatile prices due to high global demand and supply shortages as well as associated sea transportation and logistics, integrity risks associated with the emergency nature of procurement in an uncertain international market, lack of OC’s familiarity in implementing projects financed by the World Bank, the very short time for the World Bank to review and provide its no objection on award recommendations, delayed payments due to OC inability to secure on time letter of credit from its partner banks. To mitigate the procurement and integrity risks, the following measures shall be put in place:

- The OC’s standard procurement document for the supply of grain will be adopted after incorporating the World Bank’s specific requirements mentioned above;
- Given the volatile market conditions and the short validity period of bids, the OC’s evaluation of offers and award decision will be taken in 24 hours of bid opening and the World Bank will provide its response and no objection (likely by email, and later through STEP) within that time frame;
- OC will be responsible for ensuring prices are reasonable in comparison with prevailing market prices. The World Bank team will confirm that prices are consistent with spot market conditions. The World Bank team will ensure the availability of updated price information to facilitate World Bank review;
- The payment of grain shall be made using the special commitments method (Bank Letter of Credit) at the request of the OC in accordance with the terms stipulated in the signed contract;
- The World Bank team will provide procurement training and close implementation support to the OC during initial stages of project implementation and as needed throughout project implementation. The OC will recruit a qualified procurement expert/consultant to assist the OC in carrying out procurement following the World Bank’s Procurement Regulations.

C. Legal Operational Policies

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



D. Environmental and Social

- 92. 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 World Bank's guidelines and GBV/SEAH²⁵ prevention measures as per the World Bank's Good Practice Note. Accordingly, prior to project effectiveness, the PIU will prepare an ESMF that includes a Pest and Pesticide Management Plan (PPMP) and an Occupational Health and Safety Plan (OHSP). The OHSP 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 OHSP will be cleared by the World Bank and will be included in the framework agreement between the PIU and eligible importers and will cascade down to the contract between the importers and unloading contractors at the port. When finalized and cleared, the OHSP will be incorporated in the Environmental and Social Commitment Plan (ESCP).
- 93. The OC has prepared a stakeholder engagement plan (SEP) which documents key stakeholders and consultations carried out; it has been disclosed along with the Environment and Social Commitment Plan (ESCP) by the World Bank and OC on June 9, 2022. In addition, an Environmental and Social Management Framework (ESMF) will be prepared prior to project effectiveness.** 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, MAWRF 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 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.
- 94. 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 World Bank.

²⁵ Gender-based violence / sexual exploitation, abuse and sexual harassment

V. GRIEVANCE REDRESS SERVICES

95. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and World Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VI. KEY RISKS

Table 4: Systematic Operations Risk-Rating Tool (SORT)

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Substantial
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Substantial
7. Environment and Social	Substantial
8. Stakeholders	Moderate
OVERALL	Substantial

96. The overall risk for the project is rated as substantial, based on the following assessment and mitigation measures:

97. The political and governance risks associated with this emergency operation are substantial. Uncertainty of Tunisia's future governance model and the planned elections before the end of the calendar year may pose political and governance risks. Following unrest linked to the impact of the COVID-19 pandemic and attendant economic crisis, the President issued Decree 117 of September 22, 2021, which partially suspends the application of the Constitution. He announced the formation of a new government on October 11, 2021, launched a nationwide online consultation on the future governance and political model involving citizens, and also announced a plan for parliamentary elections to be held in December 2022. The political uncertainty may hinder the implementation of medium-term reform initiatives which aim to improve the resilience to food security shocks. There is, however, broad consensus in the Government on the need to urgently procure grain and avoid bread supply disruption, while securing next year's domestic production. The political context will not impact the grain purchase envisaged under this operation. There is also consensus on the imperative to reform the whole grain system, but an unexpected cabinet reshuffle could slow down or halt the proposed TA activities and envisaged policy dialogue and consultation under component 3. The project will use the momentum created by this emergency project to launch TA activities and facilitate the policy dialogue while the current Government is preparing its overall reform agenda for negotiations with international financial institutions.



- 98. The macroeconomic risk is rated substantial.** Tunisia is experiencing severe fiscal pressures and faces the risk of not having sufficient additional financing to cover the rising social, economic, and health needs of the population. After the dramatic drop of growth in 2020, Tunisia's economic recovery has been slow in 2021, given the decrease in international demand in key sectors like tourism and transport due to the many sanitary restrictions. The slow recovery has increased further the already high unemployment rate by 3.3 percentage points to 18.4 percent by the third quarter of 2021. The rising debt (84 percent of GDP in 2021), the lack of reforms, and the delay in negotiations with the IMF have effectively made it difficult for the Tunisian government to access international capital markets with sovereign ratings plummeting in 2021. These are all factors contributing to compressing the space for key government spending. The project aims to mitigate this risk by providing financing to the Government for imports of wheat and barley for human and animal consumption. This will help avoid a disruption in wheat and barley supply in the short-term, while exploring options for more fiscally sustainable solutions in the medium-term.
- 99. Sector strategies and policies risks are substantial.** While there is government ownership for future reform, current policy interventions are associated with high fiscal costs, particularly considering the rising global grain prices. Moreover, removing subsidies and price controls under current inflation and regional uncertainties could have consequences on general social stability in Tunisia and will affect the food security of Tunisian consumers, especially the most vulnerable consumer groups. This could also seriously affect farmers and domestic agricultural production. The project will mitigate these risks by laying the groundwork for initiating much-needed reforms and by creating the space for a managed transition to more effective policies.
- 100. Fiduciary risks are substantial.** Procurement risk is rated substantial mainly linked to the highly volatile prices due to high global demand and supply shortages and extremely short bid validity due to the nature of the global grain market, as well as integrity risks associated with the emergency nature of procurement in an uncertain international market. The FM residual risk is rated substantial as well due to OC's debt and delayed auditing, weaknesses in inventory management, the lack of familiarity with World Bank FM procedures and the inclusion of activities prone to irregularities. Mitigation measures are presented in the fiduciary section.
- 101. The environmental and social risks are assessed as substantial.** There will be some limited risks of dust related to unloading grain from vessels, and those risks need to be managed by the OC and companies involved in grain unloading. Some environmental risks are associated with the use of pesticides for the treatment and packaging of certified seeds. Procured wheat will be distributed through already operational mechanisms. Potential social risks could include the use of child labor, forced labor, sexual harassment, discrimination as well as operational, health and safety risks involved in wheat unloading and storing. As such, an ESMF, which includes a PPMP and a OSHP, will be prepared prior to project effectiveness. The OHSP will be included in the ESCP. Land acquisition and resettlement are not anticipated under this project.



VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: Tunisia

Tunisia Emergency Food Security Response Project

Project Development Objectives(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.

Project Development Objective Indicators

Indicator Name	PBC	Baseline	End Target
Ensure the availability of agricultural inputs for farmers			
Quantity of barley accessed by smallholder dairy producers through the Project (Metric ton)		0.00	75,000.00
Areas planted with certified wheat seeds adapted to local water-stressed conditions, procured and delivered to small farmers through the Project (Percentage)		17.00	25.00
Ensure the availability of affordable bread for vulnerable households			
Poor and vulnerable households reporting adequate access to affordable bread (Percentage)		0.00	95.00
Female-headed vulnerable households reporting adequate access to affordable bread (Percentage)		0.00	95.00



Indicator Name	PBC	Baseline	End Target
Improve Tunisia's resilience to food crises through reforms			
Regular publication of data on grain stocks, imports and production available on OC's website (Yes/No) (Yes/No)		No	Yes
Public consultation organized by the GoT on a proposed time-bound food subsidy reform implementation plan (Yes/No) (Yes/No)		No	Yes

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	End Target
Component 1 – Emergency support to farmers			
Quantity of certified wheat seeds adapted to local water-stressed conditions, procured and delivered to small farmers through the Project (Metric ton)		0.00	40,000.00
Smallholder farmers benefiting from certified climate-smart wheat seeds procured by the Project (Number)		0.00	50,000.00
of which female farmers (Percentage)		0.00	20.00
Beneficiaries reporting adequate access to certified climate-smart wheat seeds (Percentage)		0.00	95.00
Smallholder dairy farmers benefiting from barley procured by the Project (Number)		0.00	100,000.00
of which female farmers (Percentage)		0.00	20.00
Beneficiaries reporting sufficient access to barley distributed through the Project (Percentage)		0.00	95.00
Component 2 – Emergency purchase of wheat for food security			



Indicator Name	PBC	Baseline	End Target
Quantity of soft wheat procured and delivered through the Project to ensure continued access to affordable bread for poor and vulnerable households (Metric ton) (Metric ton)		0.00	150,000.00
Beneficiaries' feedback addressed through the GRM within the timeframe publicly communicated by the project (Percentage)		0.00	100.00
Percentage of bakeries registered in poor neighborhoods reporting continued supply of bread (Percentage)		0.00	95.00
Component 3 – Improving resilience to food security shocks and project management			
Reform agenda oversight by the PM's Food Security Committee (Number)		0.00	12.00
OC Modernization plan prepared (Yes/No)		No	Yes
Food subsidy reform implementation plan prepared (Yes/No)		No	Yes
New policy framework for domestic production proposed (Yes/No)		No	Yes
Stakeholder consultation on proposed reforms (Number)		0.00	10.00

Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Quantity of barley accessed by smallholder dairy producers through the Project	Ensure a continuous supply of barley to small dairy producers through barley procured and delivered under the Project	Monthly	OC	OC reporting	OC



Areas planted with certified wheat seeds adapted to local water-stressed conditions, procured and delivered to small farmers through the Project	Increased grain areas planted with certified seeds during the next planting season.	Monthly	Office des Céréales	OC Reporting	Office des Céréales
Poor and vulnerable households reporting adequate access to affordable bread	Level of access to affordable bread reported by poor and vulnerable households	Quarterly	OC	Bread access survey of a representative sample of project beneficiaries	OC
Female-headed vulnerable households reporting adequate access to affordable bread	Level of access to affordable bread reported by female-headed vulnerable households	Quarterly	OC	Bread access survey of a representative sample of project beneficiaries, with data disaggregated by gender	OC
Regular publication of data on grain stocks, imports and production available on OC's website (Yes/No)	OC has established a dashboard that provides internally real time data on domestic grain production estimates, grain imports and stocks; these data are published and updated on OC's website on a regular basis.	Monthly	Office des Cereales	OC reporting	Office des Cereales
Public consultation organized by the GoT on a proposed time-bound food subsidy reform implementation plan (Yes/No)	The approach to revising the existing food subsidies has been defined and a roadmap for implementation has been formulated after consultation organized by	Quarterly	MAWRF International Cooperation Directorate	MAWRF and PIU activity reports and minutes of stakeholders consultative meetings	MAWRF International Cooperation Directorate



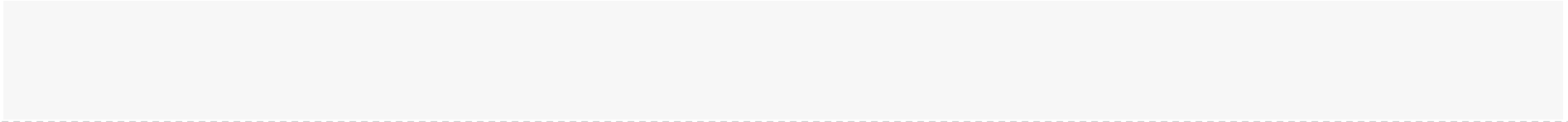
	the GoT with all concerned stakeholders.				
Monitoring & Evaluation Plan: Intermediate Results Indicators					
Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Quantity of certified wheat seeds adapted to local water-stressed conditions, procured and delivered to small farmers through the Project	Supply of certified seeds to grain producers ahead of the next planting season	Monthly	OC	OC reporting	OC
Smallholder farmers benefiting from certified climate-smart wheat seeds procured by the Project	Number of smallholder farmers who will have purchased certified seeds procured by the Project for the 2022/2023 cropping season	Monthly	Selling points and CRDA	Reports from selling points and compiled by CRDA	MAWRF
of which female farmers	Proportion of female farmers who purchased certified climate-smart wheat seeds procured by the Project	Monthly	Selling points and CRDA	Reports from selling points and compiled by CRDA	MAWRF
Beneficiaries reporting adequate access to certified climate-smart wheat seeds	Level of access to certified wheat seeds reported by grain producers (monitoring of this indicator will be discontinued when seed distribution under the Project is completed)	Quarterly	OC	Seed access survey of a representative sample of project beneficiaries	OC
Smallholder dairy farmers benefiting from barley procured by the Project	Number of smallholder dairy who will have purchased	Monthly	Selling points and CRDA	Reporting by selling points and	MAWRF



	barley procured by the Project			compiled by CRDA	
of which female farmers	Proportion of female farmers who purchased barley procured by the project	Monthly	Selling points and CRDA	Reporting by selling points and compiled by CRDA	MAWRF
Beneficiaries reporting sufficient access to barley distributed through the Project	This indicator will monitor the percentage of small dairy producers reporting sufficient access to feed (barley) through the Project support (Monitoring of this indicator will be discontinued once barley distribution is completed).	Quarterly	Surveys	Surveys of small dairy farmers to be carried out by OC in collaboration with MAWRF	OC and MAWRF
Quantity of soft wheat procured and delivered through the Project to ensure continued access to affordable bread for poor and vulnerable households (Metric ton)	Quantity of wheat procured and delivered through the Project for continued access to affordable bread for poor and vulnerable households	Monthly	Office des Céréales	OC Reporting	Office des Céréales
Beneficiaries' feedback addressed through the GRM within the timeframe publicly communicated by the project	Monitor the functionality of the project's GRM	Monthly	OC's GRM	OC's GRM recording	OC
Percentage of bakeries registered in poor neighborhoods reporting continued supply of bread	Percentage of bakeries registered in poor neighborhoods that report continued supply of bread (no interruption of access to soft wheat flour)	Quarterly	Surveys of bakeries registered with the Ministry of Trade and the OC	Survey to be carried out by the OC	Office des Cereales



Reform agenda oversight by the PM's Food Security Committee	Regular meetings of the Food Security Committee at the PM Office level to ensure close monitoring of the reform agenda formulation and implementation	Quarterly	OC	OC reporting	OC
OC Modernization plan prepared	Preparation of a modernization for OC, including process and storage digitalization, import and procurement procedure revision, storage facility assessment, financial situation assessment.	Quarterly	Office des Céréales	OC reporting	Office des Céréales
Food subsidy reform implementation plan prepared	Preparation of a reform plan for food subsidies and switch to cash transfer, including consultation and communication,	Quarterly	MAWRF	MAWRF reporting	MAWRF
New policy framework for domestic production proposed	New policy framework to support domestic production proposed and discussed with producer organization.	Quarterly	MAWRF	MAWRF reporting	MAWRF
Stakeholder consultation on proposed reforms	Consultation meetings organized to ensure citizen engagement with different categories of stakeholders on reform options	Quarterly	MAWRF	MAWRF reporting	MAWRF





ANNEX 1: Implementation Arrangements and Support Plan

COUNTRY: Tunisia

Tunisia Emergency Food Security Response Project

Strategy and Approach for Implementation Support

1. Implementation support for the project will focus on functions and activities typically monitored by World Bank task teams during supervision, including technical activities, management functions (administration, financial management, procurement), and compliance with safeguard policies. Special attention will be directed to ensuring the timely implementation of the risk mitigation measures identified in the Systematic Operations Risk Rating Tool (SORT) matrix. The implementation support strategy is flexible and likely to be amended during implementation in response to the evolving needs of the project, including changes in the institutional context. A Project Operational Manual (POM) will be developed within two months of project effectiveness.

Implementation Support Plan and Resource Requirements

2. The areas on which implementation support activities will focus are summarized in Table A1.1, which also lists skill requirements.

Table A1.1 - Implementation support focal activities and skills requirements

Time	Focus	Skills needed	Resource estimate
First 6 months	<ul style="list-style-type: none"> • Project establishment • Establishment of fiduciary systems • Communications strategy development and implementation • Environmental and social aspects in place • Establishment of Steering Committee & PIU • Setting-up M&E system 	<ul style="list-style-type: none"> • Task Team Leader • Agri-food Specialist • Procurement Specialist • FM Specialist • Environmental Specialist • Social Specialist 	10 staff weeks
12 months and beyond	<ul style="list-style-type: none"> • Program implementation • Communication activities • Monitoring • Reporting 	<ul style="list-style-type: none"> • Task Team Leader • Agri-food policy specialist • Procurement Specialist • FM Specialist • Environmental Specialist • Social Specialist • M&E/ Communication specialist 	20 staff weeks per year



ANNEX 2: Tunisia Grain Value Chain Description – Strengths and Weaknesses

Key features of Tunisian grain value chain

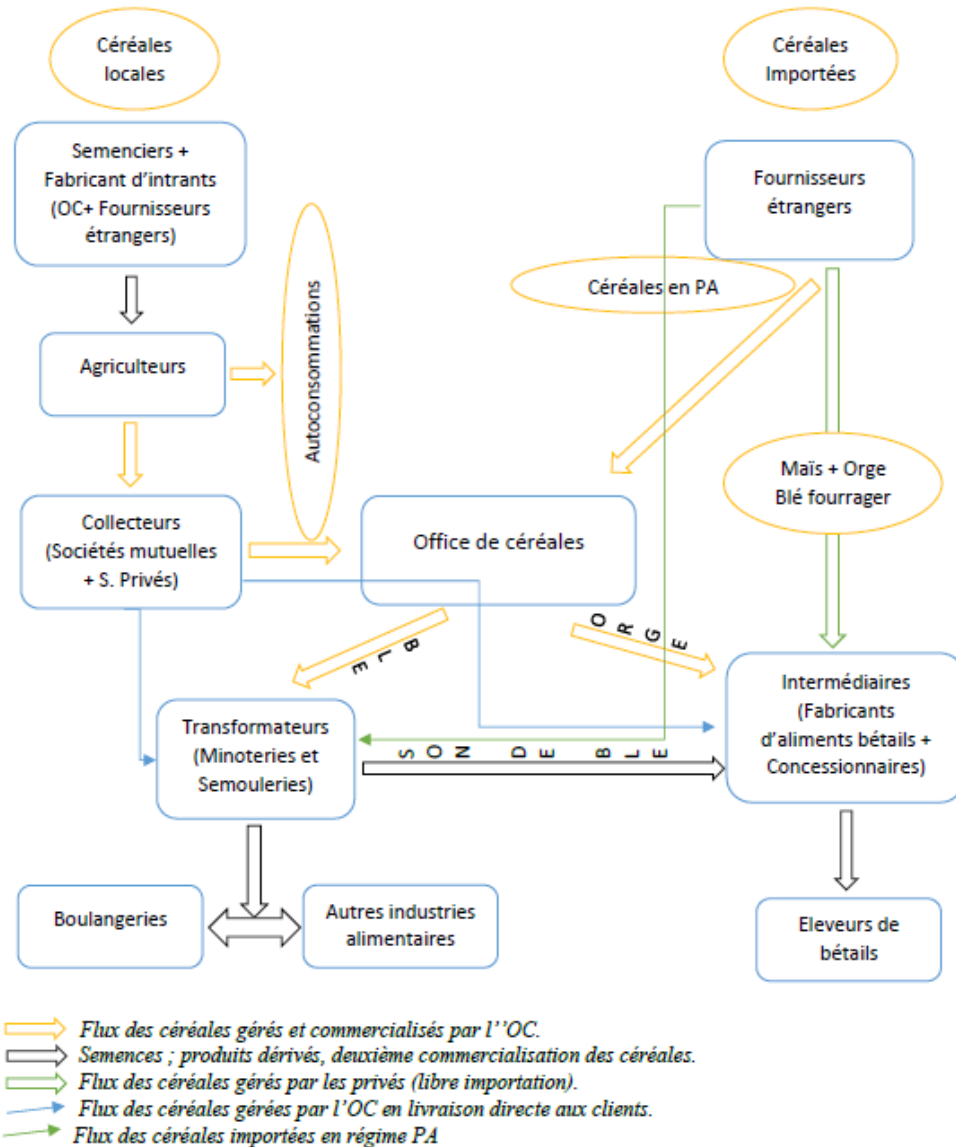
3. **Tunisia is a traditional producer of grains, mainly durum wheat and barley, and the grain sector is economically important, providing income and jobs in rural areas.** Grain is predominately produced in the North and Center of the country, where cultivation conditions including rainfall are more favorable. Grain production is rainfed and important in the farming system (crop rotation, animal feed) and livelihoods of many family farms as the main source of incomes. The national grain production relies for a large share on small-scale family farms. According to the last agricultural census (ONAGRI, 2005), among the half million farms in Tunisia, 88 percent are family farms and 75 percent hold less than 10 hectares and 50 percent less than five hectares. The national grain production relies on approximately 250,000 farms (50 percent of Tunisian farms), of which 62 percent are smallholder farmers, but which provide 60 percent of the grain production on less than 25 percent of the agricultural area. Only five percent of the Tunisian farmers belong to a producer organization and only seven percent have access to credit. Smallholder farmers are also constrained by fragmented land, limited access to markets, no dedicated or easily accessible financial and non-financial state support. The grain value chain provides jobs in its upstream segments (input supply, mechanization, etc.) and its downstream segments in the processing (flour mills) and agri-food industry.
4. **Dairy production is another important part of the rural economy and an essential source of incomes for smallholder farmers.** One third of Tunisian farms produce cow milk and the national dairy production accounts for 11 percent of the overall agricultural production. Tunisia’s dairy sector is driven by smallholder cattle farmers. More than 90 percent of dairy farms have less than 10 cows, and more than 80 percent have less than 5 cows. Approximately 63 percent of the milk is sold through formal channels, and the remaining 27 percent is for household self-consumption and informal local marketing and artisanal processing. To feed their cattle, dairy farmers rely on their own fodder production and open grazing areas, but they need to supplement with purchased barley and animal feed to increase productivity and bridge the gap with fodder harvest and pasture availability.
5. **Farming, and participation in grain and dairy production in particular, is the dominant activity for many women in rural areas.** Overall, agriculture remains an important source of employment in the inner regions with 28 percent of men and women working in agriculture either as self-employed or unpaid family labor on farm. Once subsistence agricultural production is accounted for, women’s employment rate in the rural areas of the interior regions increases from 13 to 30 percent, much higher than the 21 percent employment rate of women in rural areas of the coastal regions. Over half of the employed women in the inner regions state that working as unpaid workers on family farms is their primary occupation.²⁶ Due to male emigration, many small-scale farms are female headed. Many farming women, however, lack access to credit, technical advice and market information.
6. **Driven by food security considerations, the Government has implemented over the past 30 years a sophisticated system of public support for the grain sector which is now showing its limits.** The grain value chain remains heavily regulated by the Government with two pillars: (i) fixed domestic market prices to guarantee minimum prices for grain producers and other operators in the supply chain, and to mitigate the impact of global market volatility; and (ii) the Cereal Board (*Office des Céréales*, OC), a state-owned enterprise created in 1962 to regulate the grain market and the entire sector. The OC has a monopoly on domestic purchases of soft and durum

²⁶ Economic Research Forum, 2014, Tunisia Labor Market Panel Survey.



wheat and on the import of all wheat for consumption and barley for animal feed. The import of grains by OC is done through international competitive bidding based on quality specifications and price. OC has a registry of 39 accredited suppliers among which 10 are regularly participating in OC’s tenders. For the price difference between global market prices and domestic fixed prices along the value chain, OC receives compensations from the Government through the *Caisse Générale de Compensation* (CGC). OC is responsible for organizing and controlling the supply of wheat to registered mills and distribution of wheat flour to registered bakeries.

Figure A2.1: OC’s role in Tunisia grain value chain (domestic production and imports)



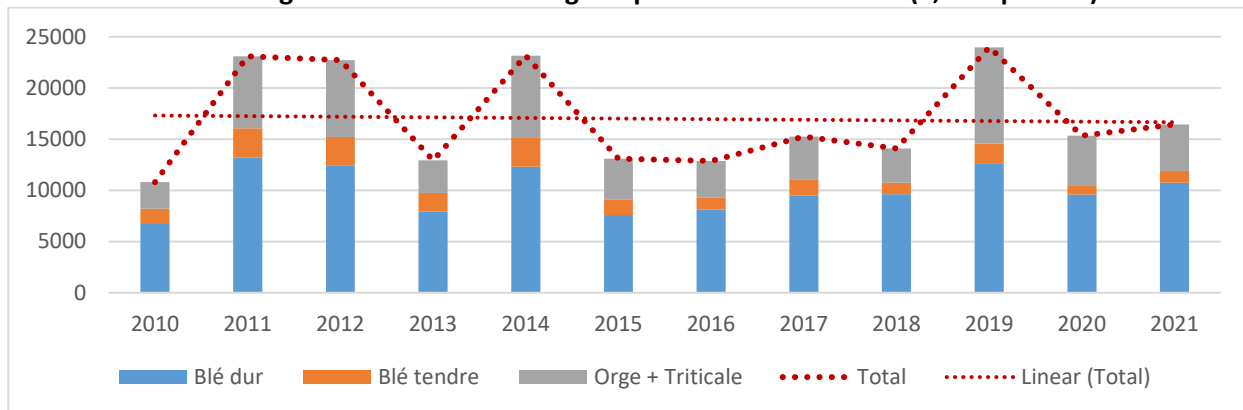
Source: France AgriMer, 2016, *Les céréales vers la Tunisie*



Domestic grain production is stagnating while import costs are steadily increasing

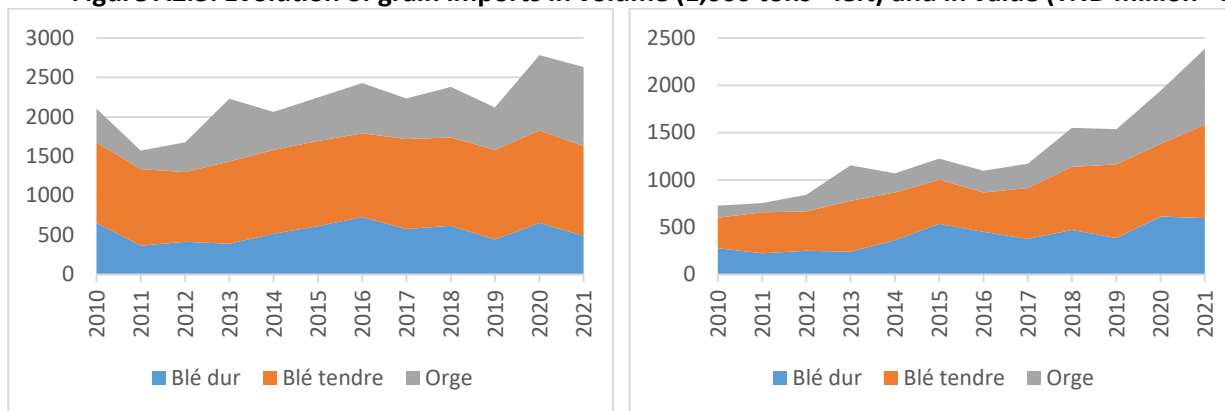
7. **Despite significant progress over the previous decades, grain production has stagnated since the 2010s and the grain import bill has exploded due to the depreciation of the Tunisian Dinar.** Average grain production over the past ten years has been estimated at nearly 1.7 million metric tons (average for the period 2012-2021), covering on average 25 percent of domestic consumption needs. Domestic production is characterized by strong inter-annual variation linked to rainfall (a coefficient of variation of around 29 percent and a production peak in 2019 of 2.4 million metric tons). On average, Tunisia produces 55 percent of its durum wheat consumption needs, 25 percent of its barley needs and 5 percent for soft wheat for which imports therefore remain the main source of supply. The increase in productivity (+10 percent) does not compensate for the drop in production areas (-12 percent) over the past decade. At the same time, imports have increased by 25 percent in volume due to the increase in demand and the share of grain imports in food imports has increased from 24 percent to 36 percent between 2010 and 2021. The cost of imports has increased exponentially essentially due to the depreciation of the Tunisian Dinar against the US dollar by more than 50 percent between 2010 and 2021.

Figure A2.2: Evolution of grain production since 2021 (1,000 quintals)



Source: ONAGRI

Figure A2.3: Evolution of grain imports in volume (1,000 tons - left) and in value (TND million - right)



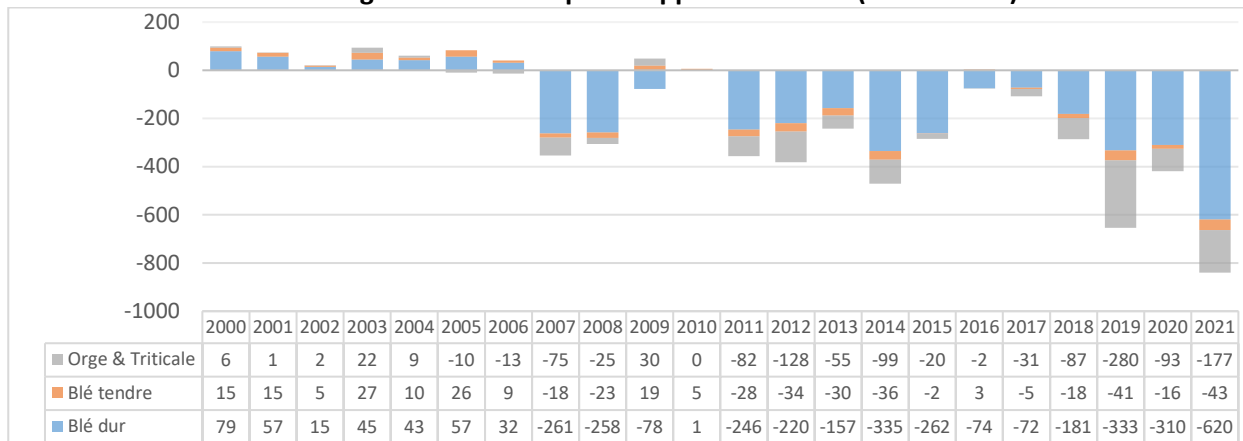
Source: ONAGRI



A generous but costly support program whose efficiency has eroded over time

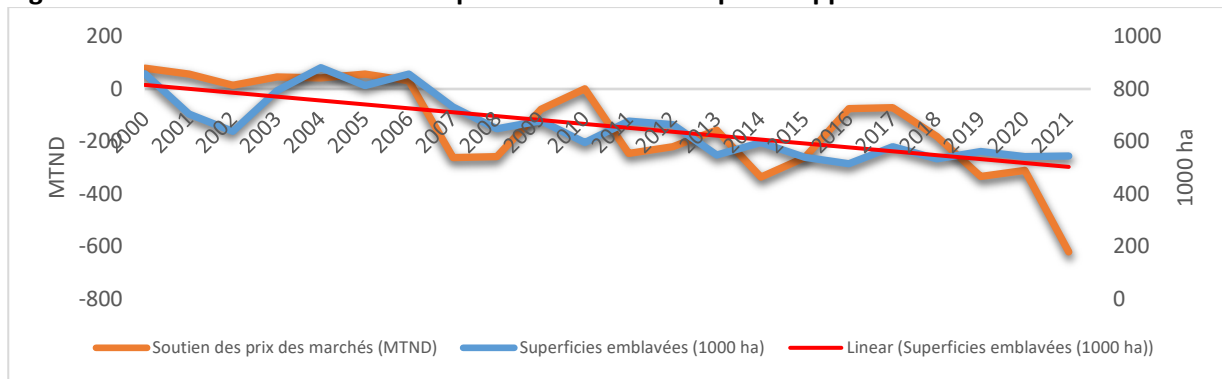
8. **While the domestic price support policy had a positive impact until the mid-2000s, there was a shift towards support for consumers, linked to the depreciation of the Tunisian Dinar and lack of regular adjustment, discouraging domestic production.** The sharp rise in international prices in dollars in 2007-2008 caused an initial erosion of public support. This reduction has intensified over the last decade in line with the depreciation of the Tunisian Dinar since 2010 and the rise in international prices over the past two years. The adjustment of producer prices has not been commensurate with the rise in global prices and the increases in basic producer prices operated by the public authorities have not fully offset the trend in international prices in dinars. At the same time, production costs have increased with the increase in the prices of imported inputs (fertilizers, phytosanitary products, fuel). This seems to have led (correlation coefficient of 62 percent) to a parallel fall in the areas sown in durum wheat (Figure A2.5). At the same time, consumer prices have remained unchanged since 2008, shifting public support towards a net transfer to consumers (leading to strong growth in commodity compensation expenditures borne by the CGC).

Figure A2.4: Grain price support evolution (million TND)



Source: World Bank estimates

Figure A2.5: Correlation between respective evolutions of price support and durum wheat sown areas



Correlation coefficient = 62 percent - Source: World Bank estimate

9. **The adjustment of producer prices has not stimulated an increase in productivity, which has stagnated at a level equivalent to 50 percent of international benchmarks.** Since 2010, price adjustments have increased

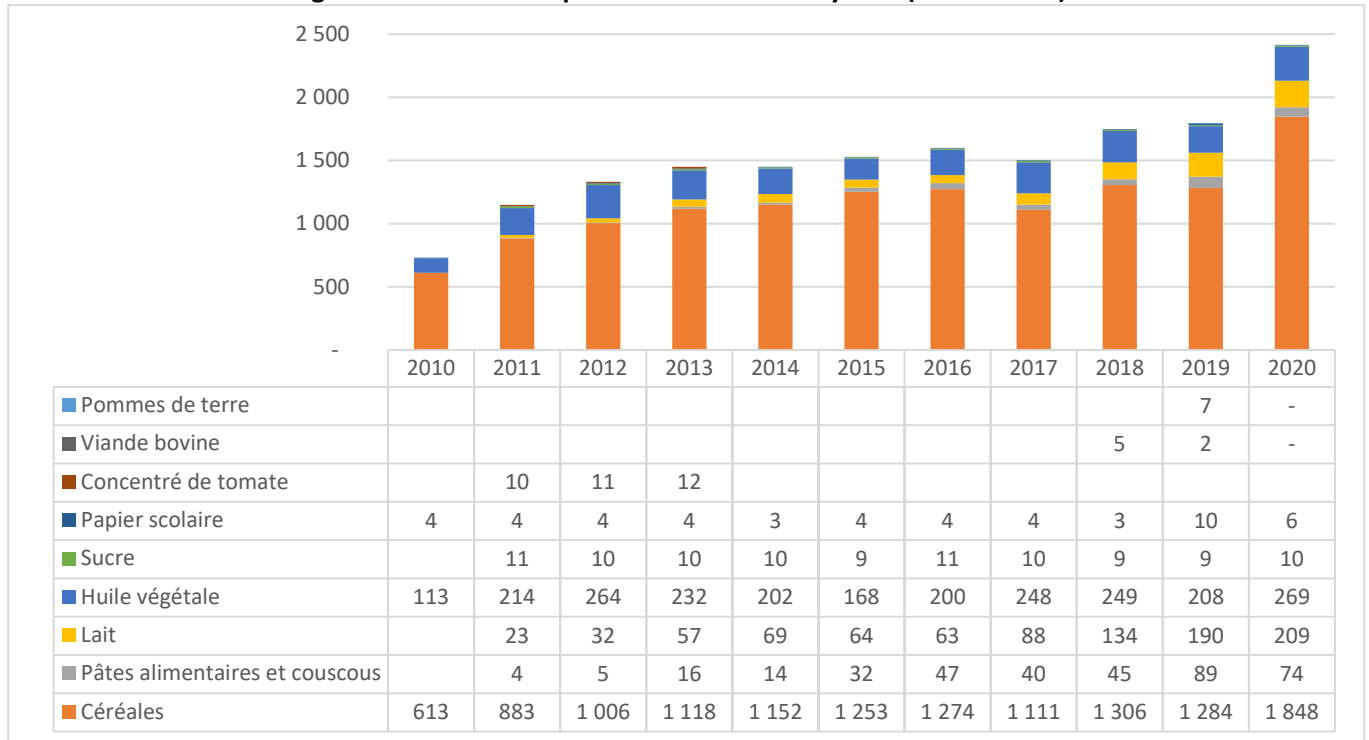


producer prices for durum wheat by 47 percent, soft wheat by 70 percent and barley and triticale by 50 percent. These increases did not match changes in international prices and the rise in production costs induced by the effects of the depreciation of the dinar. The price paid to producers is 70 percent of the international price (2021 average) for durum wheat and barley, and 75 percent for soft wheat. Those levels do not seem to encourage increases in productivity. Durum wheat productivity has increased by 23 percent over the past two decades to reach 1.7 tons per hectare, with a significant reduction in interannual variability. Average global yields were nevertheless estimated at 3.2t/ha in 2014/2015 and are more than 7t/ha in France.

Increase in consumer support and overconsumption of cereal-based products

10. **In 2020, 80 percent of food subsidies cover grain products and derivatives.** Compensation for food products by CGC has increased by 231 percent since 2010 and represented 2.4 billion TND in 2020, or 54 percent of total compensation expenditure (including fuel, electricity, transport), 6 percent of all state budget expenditure (excluding debt service) and 2 percent of GDP at current prices. Compensation for grain products has tripled since 2010 due to the rise in the price of imported grains and the sharp depreciation of the dinar. These compensations to grain value chain operators aim to bridge a growing gap between fixed consumer prices, which have changed little since 2008, and costs (set by manufacturers) which are increasing.

Figure A2.6: Food compensation evolution by CGC (million TND)



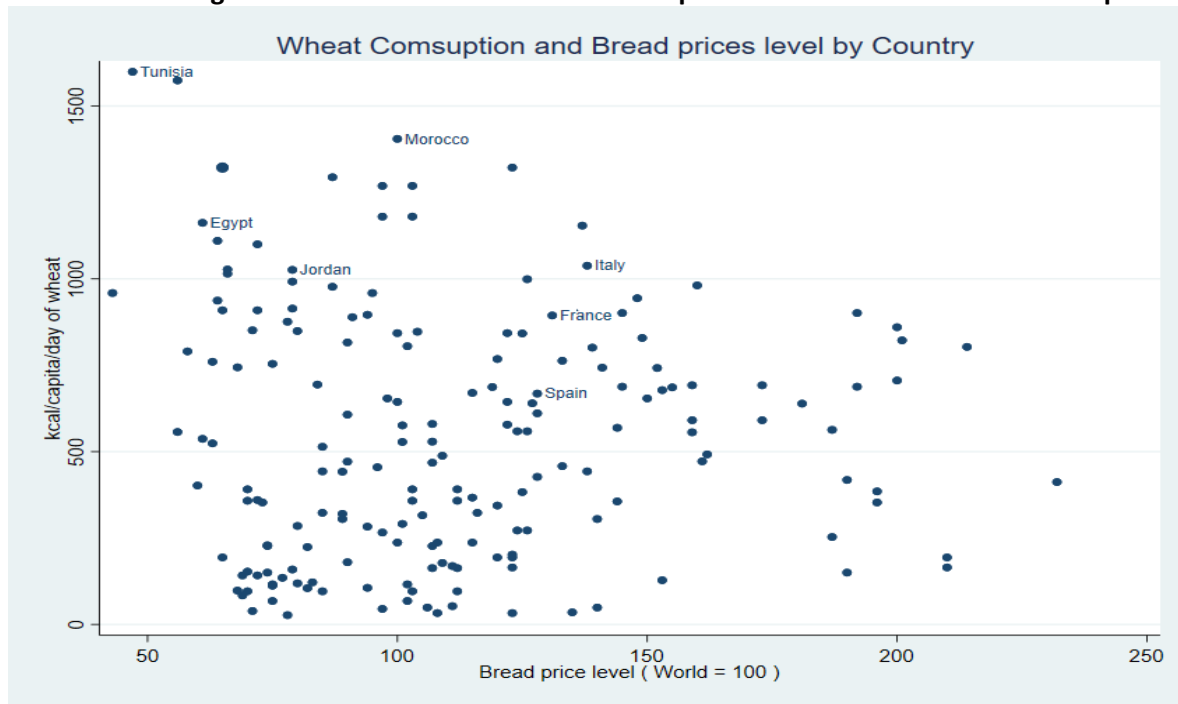
Source: World Bank based on Ministry of Trade data (CGC, 2020).

11. **Maintaining a low consumer price has induced an apparent overconsumption of grains.** National consumption of grains (durum and soft wheat) increased from 199 kg/capita/year for the period 2010-2014 to 208 kg/capita/year for the period 2015-2019 (FAO, 2019). With a daily caloric intake of 1,600kcal, Tunisian bread



consumption is 60 percent higher than in countries with a similar diet, such as Italy or Jordan. This overconsumption, which is found mainly in poor households, is recognized as a health risk factor. However, this apparent overconsumption should not be overestimated because, most likely, it also includes informal exports of grain products to neighboring countries and uses for livestock feed.

Figure A2.7: Correlation between bread price and individual wheat consumption



Source: World Bank (IPC) for bread price and FAO for wheat consumption data

- 12. **To compensate for price differentials, the processing industry also receives subsidies based on a complex and non-transparent quota system.** The sale of wheat intended for the production of flour and semolina is carried out under the control of the OC at reduced prices fixed by decision of the Ministry of Commerce. The OC receives funds from the CGC to subsidize sales operations (at a loss) to millers-semolina because of the discrepancy between the prices received and the actual costs. Sales on the domestic market are made exclusively by OC on the basis of a monthly program established by a commission composed of OC and agro-industries representatives. Subsidies are calculated based on production costs and the official selling prices of pasta and couscous. While the compensation for bakery flour has changed little over the past 10 years, the subsidy for pastry flour has increased by 60 percent between 2016 and 2019 and the compensation for secondary processing has increased tenfold. Overall, this link in the public support system to the grain sector is not very transparent, under the influence of agribusinesses, generating distortion (overcapacity in the milling industry for example) and risks of diversion in the use of processed products.

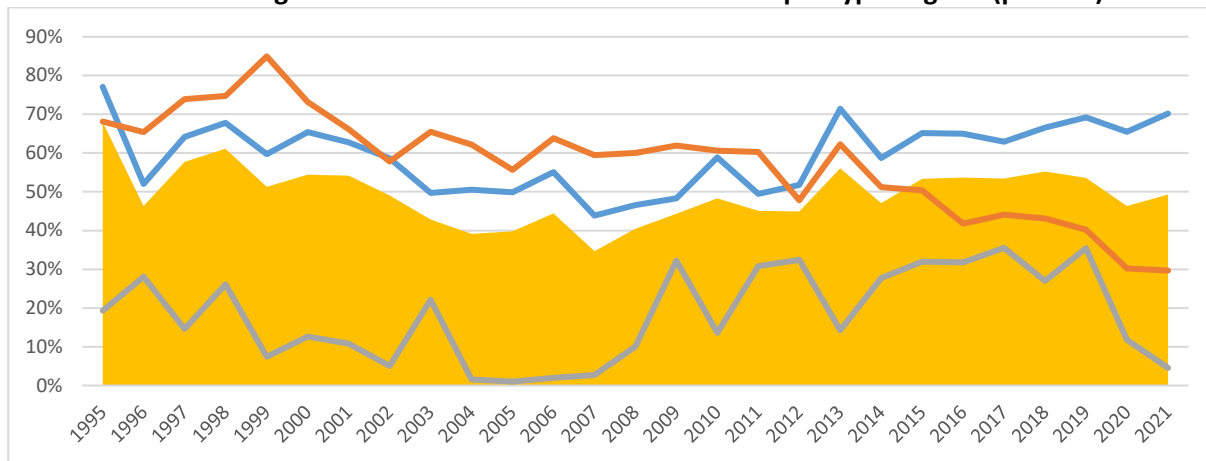
Revisiting OC’s role in ensuring food security

- 13. **National statistics indicate a structurally low level of the actual grain collection rate of 50 percent compared**



to official production estimates. One-third of the collection is carried out by the two main Agricultural Services Companies (SMSA, *Société Mutuelle de Services Agricoles* in French) and two-thirds by approved private collectors generally linked to flour mills. All collectors buy wheat from farmers on behalf of OC at a price fixed by the Decree which organizes the annual grain marketing campaign. The Campaign Decree announces each year the level of the prices set for each segment of the grain value chain. The Decree also sets the normal sale prices for delivering grains to the OC. Officially, this mechanism is put in place by the GoT with the aim of encouraging private collectors to invest in the collection of grains. In fact, the estimated national production collection rate rarely exceeds 50 percent for all grains combined. This low level is partly explained by farmers' provisions for seeds, post-harvest losses and self-consumption. However, this low level also indicates sales on the informal market, in particular for the more profitable animal feed, and even possible informal exports to the Algerian market, which is also more profitable. Finally, the statistical quality of production estimates must be taken into account, in particular in the absence of annual crop surveys since 2018.

Figure A2.8: Evolution of OC collection rate per type of grain (percent)



N.B. Collection rate = OC collected quantity as compared to estimated domestic production

Source: World Bank based on ONAGRI data

14. **To encourage the collection of locally produced grains and fight against informal circuits, the State has introduced since the 2008-2009 campaign an “early delivery bonus” which increases the effective price paid to producers.** This bonus amounts to 33 percent of the base price for durum wheat and 25 percent for soft wheat delivered, and 33 percent for barley delivered before July 15. For soft wheat and barley, the parallel market remains more attractive despite this bonus. On the other hand, the effect of this bonus is significant on the collection of durum wheat, the rate of which has increased from 50 percent to 70 percent since its introduction. This bonus is a useful tool for the authorities to temporarily correct the difference between the official price and the prices practiced on the private cattle feed market, and thus procure more durum wheat for the needs of the industry and backup storage needs.
15. **OC is facing a high level of delayed payments of the compensation by CGC.** As a consequence, OC borrows from the *Banque Nationale Agricole* (National Agriculture Bank) to finance its imports and is facing an increasing level of indebtedness and recurrent liquidity problems. This, in return, is probably leading to crowding out BNA’s lending capacities to other economic operators and, if not addressed, could present significant systemic risks for other operators in the grain value chain. Refocusing OC’s role on managing a strategic grain reserve could



decrease the volume of grain to be imported annually, hence decrease OC's financial needs. Based on current practices for maize imports, options could be explored to progressively open barley and wheat imports to private sector operators.

16. **The current crisis is seen as an opportunity for reforms towards a more sustainable system.** The GoT is keen to analyze scenarios and options to transform the whole public support system for the grain value chain to address distortions and reduce the fiscal burden of food subsidies in a context where public spending is seriously constrained. Efficiently stimulating domestic production would reduce the grain import dependency and costs, while strengthening food and nutritional security and resilience to global market shocks. It would also improve the incomes of many smallholder grain producers with multiplier effects on rural livelihoods and jobs in the domestic grain value chain.



ANNEX 3: Financial Management and Disbursement

1. The FM system must be capable of (a) accurately and completely recording all transactions related to the project; (b) facilitating the preparation of regular, timely, and reliable financial statements; (c) safeguarding the project's assets; and (d) subject to auditing diligence as required by the World Bank. The arrangements also aim to facilitate disbursements and to ensure effective use of project resources while using the country's own systems to the extent possible.
2. The Government with the support of the World Bank, the AfDB and EU, has prepared a Public Financial Management (PFM) Master Plan in 2018 aimed at addressing the PFM challenges highlighted in more recent assessments of the PFM system. These include the 2016 Public Expenditure and Financial Accountability (PEFA) Assessments and the 2017 Joint IMF/WB Public Investment Management Assessment (PIMA). Key achievements include (a) improvements in Tunisia's legal and regulatory framework with the adoption in 2019, of a new budget organic law (ref: 2019-15) and its increasing alignment with international standards; (b) enhanced budget preparation and debt management; (c) strengthened internal controls and internal audit institution; and (d) adoption of a programmatic budget preparation methodology. Nevertheless, further improvements in PFM will be necessary if the Government is to achieve its development goals. The assessment reports identified some shortcomings in terms of in-year budget reports, external scrutiny and audit, publication of settlement law and procurement.
3. The new budget organic law and ongoing technical assistance mobilized by the main donors including the European Union, the World Bank, the IMF and AfDB are helping to address some of the identified shortcoming with significant improvements. Overall, Tunisia's public financial management systems are generally acceptable and will provide reasonable level of assurance on the uses of the project's resources.
4. The financial management assessment (FMA) covered the following Directorates of the "Office des Cereales- OC": (i) department of finance and the department of accounting under the OC's Secretary General responsibility; (ii) budget and management control department under the Deputy Managing Director responsibility; and (iii) the internal audit unit. The FMA was conducted during the project preparation to check whether the OC could manage the proposed project.

Risk Assessment and Mitigation

5. The World Bank's principal concerns are to ensure that project funds are used economically and efficiently for the intended purpose. Assessment of the risks that the project funds will not be so used is an important part of the FM assessment work. The risk features are determined over two elements: (a) the risks associated with the project (inherent risks) and (b) the risks linked to a weak control environment of the project implementation (control risks).
6. The overall residual FM risk for the project is rated **Substantial**. This is due the following risk factors: (i) the 2019 and 2020 audit reports were submitted to the board of directors with several months of delay and the external auditor expressed qualified opinions; (ii) a very high level of debt placing the company in a position of over-indebtedness that threatens OC sustainability; (iii) like all emergency operations, the risk of by-passing rules and ex-ante controls to speed up procurement and payments; (iv) the nature and the design of the project that involves a multiplicity of actors and beneficiaries geographically dispersed around the country and resulting in a



large number of transactions expected; and (v) capacity challenges of the proposed implementing entity which has no recent FM experiences with the World Bank FM procedures and requirements; (vi) the existence of expenditures and activities prone to irregularities including fraud and corruption (e.g. possibility of circumventing the internal control system with collusive practices such as bribes, abuse of administrative positions, misprocurement); and (vii) insufficient capacity and skills of the team designated to carry out the physical inventory of stocks (cereals and consumables).

7. Consequently, the following FM mitigation measures have been incorporated into the project FM arrangements: (i) development of the FM procedures covering physical inventory procedures to be included in the POM; (ii) configuration of the existing accounting software “ERP” to allow the preparation of the project IFR, including a physical progress section and annual financial statements; (iii) integration of the project transactions in the annual program of the internal audit unit of the OC and copy of internal audit reports shared with the World Bank on a quarterly basis; and (iv) selection of an external auditor on a competitive basis with ToR acceptable to the World Bank (e.g. physical verification of inventories and goods acquired). The project will be required to prepare and submit annual work plan and budget (AWPB) not later than November 30 of the year preceding the year the AWPB should be implemented. Unaudited interim financial reports (IFRs) will be prepared every six months and submitted to the World Bank 45 days after the end of each semester. Furthermore, the audit reports of the project annual financial statements will be submitted to the World Bank within six (6) months following the end of each calendar year. Finally, the OC will have to submit to the World Bank, a copy of the audit reports of the Company annual financial statements prepared by its “statutory auditors” (Commissaires aux comptes). Capacity development will be provided by the World Bank FM team. To address the challenges of cash, a separate designated accounts will be opened at the CBT and direct payment and special commitment will be the preferred disbursement options for the project. There are adequate legal, regulatory, and institutional frameworks in place in Tunisia on fraud and anticorruption and the National Authority for Fighting Corruption (“*Instance Nationale de Lutte contre la Corruption*”) responsible for investigation of complaints relating to corruption is effective. For this operation, the OC will be required to develop and operationalize a governance and anti-corruption plan over the project implementation period. A training program on physical inventory procedures will be implemented to strengthen the capacity of the designated team and covering for example, the nature of the items to be inventoried, the location of the articles, the counting methods, the identification of discrepancies and the control tests carried out.

Strengths and Weaknesses

8. The design of the project follows existing FM arrangements of the OC to implement the World Bank-financed activities. The assessment revealed that the OC has acceptable FM systems (governance bodies, banking arrangements, internal audit unit, external auditing, and so forth), effective FM tools (e.g., several notes and instructions of the OC’s Management forming the procedures of administrative, financial, and accounting; and an accounting software ERP) and adequate staffing arrangements in place (e.g. the accounting and finance departments have both almost 50 staff) to manage the project funds in an economic, efficient, and transparent way.

9. In the context of the project, the main weaknesses include the lack of familiarity and previous experiences of the OC staff with World Bank FM procedures and requirements. There are also some challenges facing the OC: (i) the 2019 and 2020 audit reports were submitted to the board of directors with several months of delay and



the external auditor expressed qualified opinions; and (ii) there is a very high level of debt placing the company in a position of over-indebtedness that threatens OC’s sustainability; and some challenges in inventory management. However, an effective implementation of FM mitigation measures as well as a strengthened and effective oversight of the board of director of OC and the active involvement of the internal audit unit would contribute to mitigating the risk factors and weaknesses identified at project, and control levels.

Financial Management Action Plan

10. The Financial Management Action Plan described below (Table A3.1) has been developed to mitigate the overall financial management risks.

Table A3.1: Financial Management Action Plan

Issue/Topic	Remedial action recommended	Responsible body/person	Completion date	FM Effectiveness Conditions
Staffing	Assignment of a dedicated FM team of OC familiar with World Bank procedures to work on the FM aspects of the project or recruitment of a FM officer familiar with the World Bank FM procedures and requirements	OC	2 months after effectiveness	NO
Information system accounting software	Configuration of the existing ERP to allow the recording of the project transactions	OC	2 months after effectiveness	NO
Administrative Accounting & financial Manual	Preparation of the FM procedures (e.g. covering physical inventory procedures) as part of the POM to reflect the World Bank’s FM procedures	OC	3 months after effectiveness	NO
Internal audit	Preparation and submission of a copy of the annual program of the internal audit unit of the OC covering the transactions of the project. Copy of report shared with the World Bank quarterly.	OC	3 months after effectiveness	NO
External auditing	Appointment of the external auditor completed, and contract signed	OC	5 months after effectiveness	NO
GAC	Develop a governance and accountability plan (as part of the POM)	OC	3 months after effectiveness	NO



11. **Internal control system and internal audit:** The internal control system is aimed to ensure (i) the effectiveness and efficiency of operations, (ii) the reliability of financial reporting, and (iii) the compliance with applicable laws and regulations. The OC does not have a specific FM procedures manual at the time of project preparation. There are several notes and instructions of the OC's Management forming the procedures of administrative, financial, and accounting. For the project, the FM Manual including procurement, which would be developed two months following the project effectiveness and as part of the POM, would be developed to document, explain, and describe work processes, information flow, authorization and delegation of authority, timing, job segregations, auto and sequential controls, compliance with project objectives, and micro and macro rules and regulations. The manual will also include a detailed description of the physical inventory procedures and the M&E and MIS in place. The evaluation of the performance of the internal audit (IA) unit of OC in charge of this function revealed that the function is effective since 2004. There is an audit charter in place since 2016 and the team prepares every year, an annual audit program. The Head of the IA unit reports to the Managing Director and the Board of directors. However, there is no effective internal audit committee yet. The OC will have to develop a specific internal audit program during the entire implementation period of the project and share with the World Bank, a copy of the reports supporting the execution of such a program.
12. **Planning and budgeting:** The OC will prepare a detailed consolidated annual work plan and budget (AWPB) for implementing the activities of the project. The AWPB will be submitted to the OC Board of Director or equivalent governance body for approval and thereafter to IBRD for no-objection, not later than November 30 of the year preceding the year the work plan should be implemented.
13. **Accounting policies:** The prevailing accounting policies and procedures for the private sector in use in Tunisia (ref. law 96-112) is applied by the OC. The accounting systems and policies and financial procedures used by the new project will be documented in the project's administrative, accounting, and financial manual. The OC will customize the accounting software to meet the project's requirements.
14. **Interim financial reporting:** The unaudited IFRs will be prepared every semester and submitted to the World Bank regularly (for example, 45 days after the end of each semester) and on time. The consolidated IFR for the project includes the following financial statements: (a) Statement of Sources of Funds and Project Revenues and Uses of funds; (b) Statement of Expenditures (SOE) classified by project components and/or disbursement category (with additional information on expenditure types and implementing agencies as appropriate), showing comparisons with budgets for the reporting semester, the year, and cumulatively for the project life; (c) cash forecast; (d) explanatory notes; and (e) Designated Account (DA) activity statements; and (f) reconciliation table.
15. **Annual financial reporting:** In compliance with the country accounting standards and IBRD requirements, the OC will produce annual financial statements. These include (a) a Balance Sheet that shows assets and liabilities; (b) a Statement of Sources and Uses of Funds showing all the sources of project funds and expenditures analyzed by project component and/or category; (c) a DA Activity Statement; (d) a Summary of Withdrawals using SOEs, listing individual Withdrawal Applications by reference number, date, and amount; and (e) notes related to significant accounting policies and accounting standards adopted by management and underlying the preparation of financial statements.
16. **External Auditing:** The OC will submit audited project financial statements satisfactory to the World Bank every year within six months after closure of the fiscal year (Table A3.2). The audit will be conducted by one of the Institutions of control of the government (e.g. CGF, Court of accounts or CGSP) or if not possible, by an independent private sector auditor with qualifications and experience acceptable to the World Bank. The ToRs of



the mission to be approved by the World Bank, will include physical inspections of inventory as well as a specific chapter on corruption auditing. A single opinion on the audited project financial statements in compliance with the International Federation of Accountants will be required. In addition, a Management Letter will be required. The Management Letter will contain auditor observations and comments and recommendations for improvements in accounting records, systems, controls, and compliance with financial covenants in the Financial Agreement. The report will also include specific controls such as compliance with procurement procedures and financial reporting requirements and consistency between financial statements and management reports as well as findings of field visits (for example, physical controls, inventories). The audit report will thus refer to any incidence of noncompliance, fraud and corruption and ineligible expenditures and misprocurement identified during the audit mission. The project will comply with the World Bank disclosure policy of audit reports and place the information provided on the official website within two months of the report being accepted as final by the team and the World Bank.

Table A3.2: Due Dates of the Audit Report

Audit Report	Due Date	Responsible Party
Audited financial statements including audit report and Management Letter	(a) Not later than June 30 (2000 + N) if effectiveness has occurred before June 30 (2000 + N-1). (b) Not later than June 30 (2,000 + N+1) if effectiveness has occurred after June 30, (2000 + N-1)	OC

Funds Flow and Disbursement Arrangements

17. **Upon credit effectiveness, report-based disbursements will be used.** The project will finance 100 percent of eligible expenditures inclusive of taxes. One Designated Account (DA-A) will be opened at the Central Bank of Tunisia (CBT) under terms and conditions acceptable to the World Bank. The ceiling of the DA-A will be mentioned in the Disbursement and Financial Information Letter (DFIL). Disbursement to DA-A shall be made based on the transactions (SOE-based disbursement method). Withdrawal Applications will be submitted to the World Bank every month to document funds disbursed. Withdrawal Applications will reconcile against previously withdrawn amounts. Other methods of disbursing the funds (reimbursement, Special Commitment) will also be available to the project. The DFIL will define the threshold for Direct Payment and Special Commitment, that will be the preferred methods for all payments exceeding that threshold mainly for payment of imported grains and seeds. The project will sign and submit Withdrawal Applications electronically using the eSignatures module accessible from the World Bank’s Client Connection website.

18. **Payments to contractors and services providers:** The OC is a state-owned enterprise created in 1962 to regulate the grain market and the entire sector. The OC has a monopoly on domestic purchases of soft and durum wheat and on the import of all wheat for consumption and barley for animal feed. The OC will make payments to beneficiaries regarding the specified activities in the components of the project. Payments will be made in accordance with the payment modalities, as specified in the respective contracts/conventions. In addition to these supporting documents, the OC will consider the findings of the internal audit unit while approving the payments. The OC will reserve the right to verify the expenditures ex-post, and refunds might be requested for non-respect of contractual/convention (e.g. MOD) clauses. The MOP including the FM and disbursement procedures applicable



to the project will provide a detailed description of the control systems in place before payments are made. But all payments are overseen by the Directorate

19. **Local taxes:** Funds will be disbursed in accordance with project categories of expenditures and components, as shown in the Financing Agreement. Financing of each category of expenditure/component will be authorized as indicated in the Financing Agreement and will be inclusive of taxes according to the current country financing parameters approved for Tunisia.

20. **Support to the implementation plan:** FM supervisions will be conducted over the project’s lifetime. The project will be supervised on a risk-based approach. Based on the outcome of the FM risk assessment, the following implementation support plan is proposed (Table A3.3). The objective of the implementation support plan is to ensure the project maintains a satisfactory FM system throughout its life.

Table A3.3: FM Implementation Support Plan

FM Activity	Frequency
Desk reviews	
IFRs’ review	Semester
Audit reports review of the program	Annual
Review of other relevant information such as interim internal control systems reports	Continuous, as they become available
On-site visits	
Review of overall operation of the FM system (Implementation Support Mission)	Every six months for Substantial risk
Monitoring of actions taken on issues highlighted in audit reports, auditors’ Management Letters, internal audits, and other reports	As needed
Transaction reviews	As needed
Capacity-building support	
FM training sessions	Before project effectiveness and during implementation as needed



ANNEX 4: Procurement

1. Procurement under the project will be carried out in accordance with the World Bank Procurement Regulations for IPF Borrowers dated November 2020 (Procurement Regulations). The project will be subject to the World Bank's Anticorruption Guidelines ('Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants'), dated October 15, 2006, and revised in January 2011 and July 2016. The project will use the Systematic Tracking of Exchanges in Procurement (STEP) to plan, record and track procurement transactions.

2. **Preparation under emergency conditions.** The project was prepared under emergency procedures in accordance with paragraph 12 of section III of the World Bank's policy: financing of investment projects (IFI) (situations requiring urgent assistance or capacity constraints), including the application of condensed procedures, deferral of procurement requirements to the project implementation stage, and use of flexible procurement measures in situations of urgent need for assistance or capacity constraints. The following procurement procedures may be used in this context, in addition to the limited international competitive tender: direct selection according to needs, request for quotations and use of national procurement procedures with increased thresholds and shortest bidding period.

3. **Procurement activities.** The procurement activities include mainly the purchase of wheat (50 percent of project cost), barley (27 percent of project cost), improved seeds (19 percent of project cost), the selection of consultants for technical assistance to improve the overall grain value chain, assessment of public and private storage capacity, assessment of domestic production estimates and purchase needs, advisory work on food policy, etc.

4. **Implementing Arrangements.** The project will be implemented by the *Office des Céréales (OC)*, designated as the executing unit. The OC was created by Decree-Law No. 62-10 of April 3, 1962,²⁷ which gives it a monopoly on the purchase and sale of imported cereals. It is a public establishment of an industrial and commercial nature endowed with civil personality and financial autonomy. It is placed under the supervision of the ministry in charge of agriculture. OC is subject to the Tunisian public procurement decree (No.2014-1039 of March 13, 2014), which includes specific provisions concerning the purchase of imported products at fluctuating prices (chapter 2). These provisions apply to public enterprise contracts relating to the purchase of imported products whose prices are subject to rapid fluctuation and which, as a result, cannot comply with the normal conditions of award, execution and review/control (case of OC). These provisions also apply to service contracts related to these products which, in the case of OC, concerns the contracts of surveillance companies, in charge of pre-shipment checks on cereals offered by selected suppliers.

- **Procurement procedures.** In accordance with the Tunisian public procurement decree, OC establishes for its imports an annual purchasing program which must be approved beforehand by its board of directors, prior to execution. Given the specific nature of the grain market (products at fluctuating prices), limited international tendering is the rule. It lasts 24 hours on average (from invitation to selection) and relates to the purchase of volumes deliverable by vessels with capacities varying between 17,000 and 25,000 tons (i.e. a corresponding amount varying between US\$8.5 million and US\$12.5 million at current market prices). The evaluation of the

²⁷ Amended by Decrees-Laws No. 70-47 of November 20, 1970 and No. 86-67 of July 16, 1986, to change the name and reduce the scope to grain only.



bids is made the same day of the reception of the offers, in an open session and the notification of the award is made in the 24 hours which follow the submission of the offers. The duration of the contracts varies according to the date of the launch of the tender process, but it lasts on average 3 months. The quantities purchased are generally fixed but sometimes with tolerance margins of +/- 10 percent. Under the project, OC will procure grain in accordance with paragraph 6.51 of the Procurement Regulations (Commodities).

- **OC's procurement documents.** OC has standard documents for the acquisition of grain including Instruction to bidders and general conditions and technical requirements and specific conditions of contract. This tender dossier developed in accordance with the Tunisian public procurement decree, includes the relevant specific provisions for the purchase of grain, and respects the basic procurement principles, namely, economy, integrity, efficiency, transparency and fairness. This procurement document and the corresponding contract document are in accordance with normal commercial practices in the sector and are widely accepted by suppliers. However, to be acceptable to the World Bank, this standard document will have to be adjusted to include mandatory provisions relating to eligibility of suppliers, fraud and corruption, the World Bank's right to audit, etc.

Prequalification of suppliers. For grain supplies, OC launches limited international calls for tenders with invitation to some of the most reputable suppliers in the world and that are in the list of prequalified suppliers established by OC. The prequalification conditions for suppliers are established by the procurement commission of the OC. Suppliers interested to be registered in the list of pre-qualified can submit an application to OC at any time. The registration is dependent on a favorable evaluation of the supplier's application, consisting of a certain number of documents including a duly signed information sheet, the financial statements for the last two years, the certificate of non-bankruptcy or receivership, letter from the financial auditor of the company for the last two years and the specifications of the general conditions for the importation of grain duly signed by the candidate. In addition to the review of the application documents, OC mandates a company to investigate the situation of the candidate company. The evaluation of the application as well as the investigation report are submitted to the procurement commission for a final decision. The list of prequalified suppliers is updated every 3 years to remove suppliers that do not respond to invitation to bid and bad performers (last update in 2021).

- **Surveillance companies.** They are selected to carry out verifications at the ports of origin, of ships and their cargoes before loading (equipment, personnel, goods and silo) and during loading (sampling, physical, technological and rheological analysis according to the international standards in force), before the shipment of grain to Tunisia. OC selects annually surveillance companies to provide the verification services required at the level of the various ports of origin of the grain. The selection is done by quotation (based on lowest price). Thus, for each shipment of grain to be delivered in Tunisia, the company selected for the port of origin will carry out the verification required.

- **Adjustments needed on OC procurement documents.** To be acceptable to the World Bank, OC's standard tender document will be adjusted to reflect, among others, the following provisions:

- a. Eligibility requirements in accordance with paragraphs 3.21-3.24 of the Procurement Regulations;
- b. Conflict of interest provisions in accordance with paragraphs 3.14-3.17 of the Procurement Regulations;
- c. Fraud and corruption provisions and World Bank's right to audit;



- d. The payment of grain purchases/shipped shall be made using the Special Commitments method (Letter of Credit by the World Bank) at the request of OC in accordance with the terms stipulated in the signed contract; and
- e. Maintaining all relevant records for the World Bank's audits, when requested.

5. **Procurement risk and capacity assessment.**

- **The capacity assessment** conducted from April 13 to 27, 2022. showed that OC has extensive experience in purchasing grain on the international market and uses for this purpose proven standard documents which respect the basic principles of economy, integrity, efficiency, transparency and fairness. However, OC has no previous experience in implementing World Bank funded projects and its staff are not familiar with World Bank procurement procedures. OC uses broad competitive bidding procedures, through limited international call for tenders addressed to all prequalified suppliers which are on a previously established list. To date, the suppliers prequalified by OC for calls for tender number around forty, including some of the most reputable suppliers in the sector.

- **The main parties involved in OC's procurement for purchase of grain** are the Supply Department, the Permanent Secretary of the Procurement Commission, the committee in charge of purchase of grain and the Director General office. The supply department is responsible for preparing the annual purchasing program, prospecting on the international market to identify purchasing opportunities which are then communicated to the Director General's office for approval. Purchasing opportunities are identified in conjunction with the distribution department, which is responsible for monitoring grain flows and distributing grain to users (millers). The supply department comprises 7 staff including the director, technicians and administrative staff. The Permanent Secretary of the Procurement Commission is responsible for the preparation of tender documents, the management of the procurement process, including the launching of calls for tenders, the receipt of tenders, the opening of the offers in the presence of the members of the grain purchasing committee and representatives of bidders and the preparation of the evaluation report with the grain purchasing committee (the same day of the opening of the offers), which will be presented to the Director General's office and then to the Ministry of Agriculture for approval. The staff of the permanent secretary of the procurement commission is made up of a director and 2 administrative staff.

- **Procurement review/ control.** The Grain Purchasing Committee is responsible for evaluating bids and selecting contract awardees based on the most advantageous bid. It is made up of representatives of the Ministries of Finance, Agriculture and Trade, the State Control representative and representatives of the Supply Department and the Permanent Secretary of the Procurement Commission. State Control verifies the appropriateness of purchases (opportunity) and ensures compliance with procurement procedures. Procurement for the purchase of grain is therefore not subject to prior control by the *Haute Instance de la Commande Publique* (HAICOP – High Commission for Public Procurement). Award decisions are shared with the *Observatoire National des Marchés Publics* (ONMP - National Public Procurement Observatory) for information.

- **Procurement risk is rated substantial.** Key risks are:
- Absence of a World Bank-acceptable Procurement Documents for commodities;



- Risk associated with extremely short bid validity;
- Highly volatile prices due to high global demand and supply shortages as well as associated sea transportation and logistics;
- Integrity risks associated with the emergency nature of procurement in uncertain international market;
- Lack of OC's familiarity in implementing projects financed by the World Bank;
- The very short time for the World Bank to review and provide its no objection on award recommendations; and
- Delayed payment due to OC inability to secure on time letter of credit from its partner banks.

To mitigate the procurement and integrity risks, the following measures shall be put in place:

- a. OC's standard procurement document for the supply of grain will be adopted after incorporating WB's specific requirements relating to eligibility, conflict of interest, fraud and corruption, and right to audit and any other requirement that the World Bank considers necessary;
 - b. Given the volatile market conditions and the short validity period of bids, OC's evaluation of offers and award decision will be taken within 24 hours of bid opening and the World Bank will provide its response/no objection (likely by email, and later be processed in STEP) within that time frame;
 - c. OC will be responsible for ensuring price reasonableness in comparison with prevailing market prices. The World Bank TTL will confirm that prices are consistent with the spot market. The task team will ensure the availability of updated price information to facilitate World Bank review;
 - d. The payment of grain purchases/shipped shall be made using the Special Commitments method (Letter of Credit by the World Bank) at the request of OC in accordance with the terms stipulated in the signed contract;
 - e. The World Bank team will provide procurement training and close implementation support to OC during the initial stages of the implementation and as needed throughout project implementation. OC will recruit a qualified procurement expert/consultant to assist OC in carrying out procurement following World Bank's Procurement Regulations;
 - f. The World Bank team will also provide training to OC staff on the use of STEP;
 - g. All contract award notices will be published in UNDB.
6. **PPSD.** Given the use of emergency procedures for the preparation of the project, a procurement plan has been prepared for the first three months of project implementation. It will be completed beyond the initial three months along the finalization of the PPSD during the initial stages of project implementation. The World Bank's standard review thresholds for substantial risk projects shall apply to the project. The contracts for wheat and other grain will be subject to prior review regardless of value.