

Tunisia Country Development Cooperation Strategy

September 2016



Photo: Young Tunisian entrepreneurs participate in skills building exercises as part of the Mashrou3i program jointly funded by USAID, UNIDO, Hewlett Packard, and the Government of Italy.

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Acronyms

ADS - Automated Directives System
AfDB - African Development Bank
ARABOSAI - Arab Organization for Supreme Audit Institutions
AU – African Union
AUP – African Union Partnership
BRCP - Business Reform and Competitiveness Project
CDCS - Country Development Cooperation Strategy
CLA - Collaborating, Learning, and Adapting
CSO - Civil Society Organization
CVE - Countering Violent Extremism
DE - Developmental Evaluation
DfID - United Kingdom Department for International Development
DO - Development Objective
DRG - Democracy, Rights, and Governance
DRL - Democracy, Rights, and Labor
EU - European Union
G7 - Group of Seven
GBV - Gender-Based Violence
GCC - Global Climate Change
GIZ - Deutsche Gesellschaft für Internationale Zusammenarbeit
GDP - Gross Domestic Product
GOT - Government of Tunisia
HIV - Human Immunodeficiency Virus
ICCM - International Counterterrorism and Countering Violent Extreme Capacity Building Clearinghouse Mechanism
IFI - International Financial Institution
IMF - International Monetary Fund
INS - l'Institut National de la Statistique de Tunisie
INTOSAI - International Organization for Supreme Audit Institutions
IR - Intermediate Result
IRI - International Republican Institute
MCC - Millennium Challenge Corporation
MEL - Monitoring, Evaluation, and Learning
MENA - Middle East and North Africa

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MERP - Middle East Regional Platform
MEPI - Middle East Partnership Initiative
NDI - National Democratic Institute
NEET - Not in Education, Employment, or Training
OECD - Organization for Economic Cooperation and Development
OGP - Open Government Partnership
OTI - Office of Transition Initiatives
PEA - Political Economy Analysis
PFM - Public Financial Management
PMP - Performance Monitoring Plan
SDG - Sustainable Development Goal
SDP - Strategic Development Plan
SME - Small- and Medium-Sized Enterprises
TAEF - Tunisian-American Enterprise Fund
TTI - Tunisia Transition Initiative
UN - United Nations
UNIDO - United Nations Industrial Development Organization
USG - U.S. Government
VE - Violent Extremism
VEO - Violent Extremist Organization

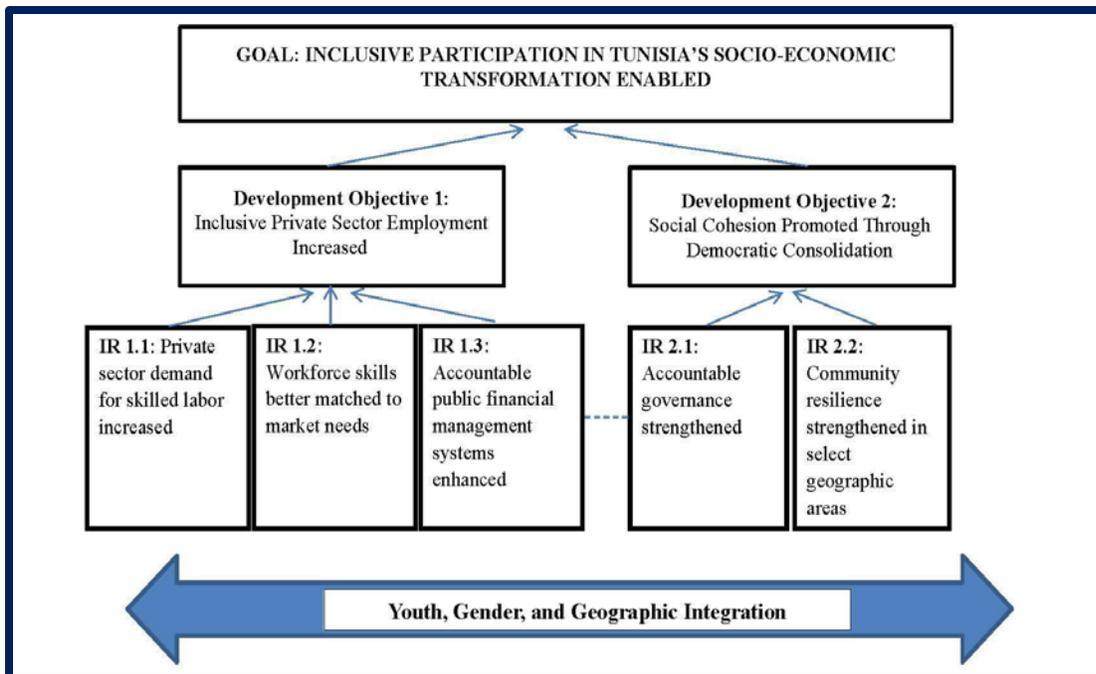
Executive Summary

Tunisia and the United States have a strong and continuing partnership with the shared objectives of furthering Tunisia’s democratization, strengthening the Tunisian economy, and improving security. This Country Development Cooperation Strategy (CDCS) embodies this spirit of partnership and local ownership.

To become more open, inclusive, and socially integrated, Tunisia has identified the need to unleash its private sector and promote economic opportunities for all. Simultaneously, Tunisia seeks broader and more inclusive participation in governance in order to guarantee improved public sector accountability and service delivery.

The development objectives outlined in this CDCS represent USAID’s contribution over the next five years toward helping Tunisia surmount its economic and social challenges, as identified in the Government of Tunisia’s (GOT) proposed 2016-2020 Strategic Development Plan (SDP). As depicted graphically, USAID’s five-year strategy features two interlocking development objectives (DOs) - “Inclusive Private Sector Employment Increased” (DO 1) and “Social Cohesion Promoted through Democratic Consolidation” (DO 2) - with cross-cutting themes of youth, gender, and geographic integration. These elements will contribute to the goal of this CDCS, entitled “Inclusive Participation in Tunisia’s Socio-Economic Transformation Enabled.”

CDCS Results Framework



DO 1 assumes that if the government can maintain its overall macroeconomic balance and implement meaningful economic reforms that improve the business enabling environment, workforce skills, and public financial management systems, private sector firms will respond by increasing investment, expanding their business activity, and hiring more workers. Higher employment, in turn, will directly boost inclusion and enable much broader participation by increasing Tunisian confidence and economic hope for the future. DO 1 is driven by the need to promote inclusive, private sector-led growth that will reduce unemployment and contribute to Tunisia's longer-term socio-economic transformation.

- Under Intermediate Result (IR) 1.1 (“Private Sector Demand for Skilled Labor Increased”), USAID will continue working primarily at the firm level, mainly with small and medium enterprises (SMEs) that have strong potential for expansion. This includes support for improved marketing, management, human resources, and other systems that promote firm growth and job creation.
- Under Intermediate Result 1.2 (“Workforce Skills Better Matched to Market Needs”), USAID will work with training institutions, workers, and existing labor-matching systems to strengthen the links between Tunisia's education system and its private sector (including associations and chambers of commerce).
- Activities under IR 1.3 (“Accountable Public Financial Management Systems Enhanced”) will work with the Government of Tunisia to improve public financial management in tax collection and administration, transparency and accountability of public resources and budgets. As shown in the results framework, IR 1.3 ties directly to the “Accountable Governance” of IR 2.1.

DO 2 assumes that if Tunisia builds a more effective government that fosters collaboration between institutions and citizens while building community resilience, then improved social cohesion will contribute to a more democratic and inclusive society. Activities will be designed to create tangible results and provide positive and sustainable development.

- Activities under IR 2.1 (“Accountable Governance Strengthened”) will support more accountable and inclusive governance through citizen participation, while supporting the Government of Tunisia to effectively address citizen needs.
- IR 2.2 (“Community Resilience Strengthened in Select Geographic Areas”) will focus on delivering measurable impacts on populations in marginalized regions and addressing some of the drivers of violent extremism.

Gender, youth, and geographic integration are also critical considerations for promoting inclusiveness and social cohesion in Tunisia and will be factored into activities cutting across both DOs and all five IRs.

Partnership and Local Systems

USAID will partner with Tunisian civil society and private sector actors, and support GOT-led efforts to enable Tunisia's socio-economic transformation. USAID will also collaborate with international partners. Working with Tunisian and international stakeholders to maximize development investments and results is critical to helping Tunisia advance its ambitious development agenda.

Adapting and Learning

USAID will take a deliberate and systematic approach to integrating monitoring, evaluation, and learning over the life of the CDCS. This approach will include:

- Performance monitoring to ensure that programming is relevant to conditions on the ground and that projects and activities support strategic objectives;
- Evaluations and analyses;
- Assessment of assumptions, risks, hypotheses and approaches; and
- Coordination with stakeholders, including the G7+EU-Tunisia Partners Group, to promote Tunisian leadership and sharing and application of new knowledge across sectors and international partner-funded programs.¹

¹ The G7 includes the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom.

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Tunisia Country Development Cooperation Strategy

Development Context, Challenges, and Opportunities

Tunisia and the United States have a strong and continuing partnership, with shared objectives of furthering Tunisia's democratization, strengthening the Tunisian economy, and improving security. As a lower middle-income country with relatively developed economic institutions and a democratically-elected government, Tunisia is an exception in a conflict-affected region. Despite the dramatic positive changes after the 2011 popular uprising, however, Tunisia still suffers from negative historical legacies that undermine its economic and political development.

Challenges

Tunisia's development is hindered by a lack of inclusion and participation, with political and economic systems slowly shifting beyond serving a narrow, privileged segment of Tunisian society. High levels of unemployment and stagnant growth persist. Slow GDP growth in the Eurozone, predicted to average about 1.7 percent through 2017,² is likely to limit demand for Tunisian exports. Security issues also undermine the country's economic growth potential, especially in the areas of tourism and foreign investment. For example, Tunisia's Ministry of Tourism reported 70 percent fewer European visitors in 2015 compared to 2014, after widely-publicized attacks.³ Climate risks related to natural resource management as well as the need for more robust and diversified economic activity in the south and interior compound these issues.

Governing and economic power remains predominantly in the hands of a political and economic elite class concentrated on the coasts. Lack of cohesion at the central government level hurts the government's ability to design and implement effective development initiatives in marginalized areas of the country. Efforts to address these challenges have fallen short of expectations, leading to disaffection, dissatisfaction, and undermining of the formal political processes. In January 2016, Tunisia witnessed the largest wave of nationwide protests since January 2011.⁴ With stagnant economic growth, security challenges, and inadequate governance mechanisms to channel frustrations, the situation in Tunisia is fragile.

Tunisia's youth, who although highly schooled, suffer from high unemployment rates and perceive themselves as being disenfranchised within the political system, as evidenced by their low turnout during elections in 2014.⁵ Recent perception polling showed that 55 percent of

² BBC, "Eurozone growth forecast cut to 1.7 percent," February 4, 2016. <http://www.bbc.com/news/business-35492353>

³ <http://www.tourisme.gov.tn/en/achievements-and-prospects/tourism-in-figures/figures-2015.html>

⁴ New York Times, "Tunisia Sets Nation-Wide Curfew Amidst Growing Unrest," January 22, 2016. http://www.nytimes.com/2016/01/23/world/middleeast/tunisia-curfew-unemployment.html?_r=0

⁵ International Institute for Democracy and Electoral Assistance, "Social Cohesion and Democracy," 2009.

Tunisians believe that the government is doing little to nothing to help youth.⁶ Women also face barriers to full social, economic, and political participation despite a legacy of state support for women's rights. While current laws provide progressive protections, in reality, the implementation of these laws is inconsistent. Tunisian women experience a high prevalence of violence, with initial data from a USAID-funded regional gender-based violence (GBV) activity showing that 47 percent of Tunisian women have experienced at least one form of violence.⁷ Other marginalized communities, including gender and sexual minorities, experience routine economic and social discrimination.

The threat of violent extremism (VE) is also concerning in Tunisia, with implications for national and regional stability. Recruitment of Tunisian men and women into extremist organizations, whether to operate in Tunisia or as foreign terrorist fighters, along with the infiltration of these organizations into Tunisia pose additional threats to the success of Tunisia's economic and political transition.

Opportunities

There are significant opportunities in economic growth, social transformation, and democratic consolidation. Tunisia's status as a lower middle-income country, along with its literate population and proximity to Europe and other trading partners, points to opportunities for economic growth. Moreover, Tunisia benefits from relatively developed political and economic institutions that stand to benefit from the Government of Tunisia's reform program, which seeks to increase their transparency, accountability, and efficiency. Passage of critical legislation - such as the Bankruptcy Law and Banking Sector Law - will help attract additional domestic and international investment and will support accelerated private-sector-led economic growth opportunities. USAID's support for expansion of private enterprises and continued work on key fiscal reform issues may also help fuel additional economic growth opportunities.

Tunisia's constitution, passed in 2014, provides a path forward for democratic consolidation and ultimately a more cohesive Tunisia. It reflects democratic principles, including a rights-based approach with protections for women and minorities, and enshrines youth participation as a key pillar of the social, economic, and political development of the country. To date, however, many articles of the Constitution are not yet implemented, resulting in legal and institutional gaps that continue to undermine Tunisia's social cohesion. Programming under the CDCS, therefore, will include interventions aimed at bolstering social cohesion and building political capital until these legal and institutional gaps are closed.

⁶ International Republican Institute Center for Insights in Survey Research, "Public Opinion Survey of Tunisians: May 24-30, 2016," 2016. http://www.iri.org/sites/default/files/wysiwyg/iri_tunisia_survey_may_2016_public.pdf

⁷ USAID, Draft Tunisia Context Analysis from the Countering Gender Based Violence Initiative for MENA, March 2016.

The GOT's constitutionally-mandated commitment to decentralization represents another window of opportunity. Decentralization is a complex process and the GOT can benefit from technical assistance. Within the CDCS timeframe, transparent decentralization initiatives that focus on demonstrable short-term performance improvements to foster accountability can go a long way toward advancing Tunisia's long-term socio-economic transformation.

Finally, the strong partnership between the GOT and the U.S. government represents another opportunity for advancing Tunisia's transition. The U.S.-Tunisia Strategic Dialogue process, which centers on expanding economic ties, security cooperation, democracy, scientific, educational, and cultural partnership, presents a constructive forum for stronger bilateral cooperation while keeping an emphasis on Tunisian-led development priorities and local ownership.

Government of Tunisia and U.S. Government Priorities

The GOT's proposed Strategic Development Plan (SDP) 2016-2020 outlines five axes: 1) enhancing good governance, administrative reform, and anti-corruption; 2) accelerating the adoption of crucial reforms to develop a higher value-added economy; 3) developing human capital and promoting social inclusion; 4) reducing regional disparities; and 5) embracing the green economy as a pillar of sustainable development. To support this plan, a Group of Seven (G7) + European Union (EU)-Tunisia Partners Group was formed to improve coordination and support implementation of the proposed SDP. USAID, as part of the U.S. Embassy, is actively participating in this group, and co-facilitates the "Human Development and Social Inclusion" thematic working group. USAID also participates in the groups for the other axes as they relate to the priorities identified under this CDCS.

Evidence and Lessons Learned

The CDCS was developed based on extensive research and analysis, as well as lessons learned from previous implementation. In addition to drawing upon pre-existing analyses, such as the 2011 Millennium Challenge Corporation (MCC)-African Development Bank (AfDB) Tunisia Inclusive Growth Diagnostic, USAID also completed a gender analysis; a climate risk screening; a democracy, rights and governance assessment; and a mandatory Foreign Assistance Act 119 Biodiversity report. These findings form a key part of the evidence-based foundation of the Results Framework and have been integrated throughout the strategy. Further, these analyses will inform subsequent projects and activity designs in support of the CDCS Results Framework.

USAID graduated Tunisia from assistance in 1994, but re-opened in 2014, and since then, has focused largely on economic growth. In addition to macro-fiscal support in the form of a cash transfer and sovereign loan guarantees, USAID established the Tunisian American Enterprise Fund (TAEF) and is working to improve economic growth and governance as it provides finance in the Tunisian market. USAID also has learned from its modest DRG programming, including support for elections as well as community-level resilience. The CDCS reflects many of the lessons gained from these programs, including the need for continual learning and adaptive management throughout the strategy and project lifecycle.

Tunisian American Enterprise Fund

In 2013 USAID launched the Tunisian-American Enterprise Fund (TAEF). The fund, a private corporation, invests in small and medium enterprises to promote inclusive economic growth and employment, critical to Tunisia's transition to democracy.

The fund is capitalized with a \$60 million grant from USAID, the majority of which will be used to make loans and private equity investments. The fund will also seek to leverage private capital for investments. The fund will actively invest through 2027, followed by a period of investment management and fund wind-down.

Investments	TAEF Commitment	Invested as of 12/31/2015
TunInvest Croissance – an SME Equity Fund	TND 4 million	TND 2.7 million 8 SME companies
Tunisian American SME Company	US \$ 30 million	US \$1.8 million 3 SME companies
Microfinance Institutions	US \$ 2.5 million	US \$ 1 million 1 MFI

Economic Growth Lessons Learned

Tunisia is a lower middle income country struggling to achieve its desired level of economic growth, averaging less than three percent annually over the past decade. On a per capita basis, growth averaged less than two percent over the last decade.⁸ Despite this, Tunisia is fortunate to have a functional institutional base and an educated population with the will, drive, and capacity to bring about change. Over the past few years of successful private sector employment programming, USAID has learned how to effectively work with existing private sector enterprises poised for growth to provide focused, tailor-made assistance designed to unlock growth potential. USAID has learned that in Tunisia as elsewhere, small investments can lead to big impacts, and that linking private sector engagement with improving workforce training and targeted policy reform efforts is crucial to delivering meaningful, cost-effective results. For example, private sector-led, adaptive programming provided through the Business Reform Competitiveness Project (BRCP) produced more than 10,000 private sector jobs in two years thanks to its locally driven firm-level focus.

Democracy, Rights, and Governance (DRG) Lessons Learned

USAID has also learned important lessons from prior USG DRG programming in Tunisia, including the importance of identifying, and engaging with relevant local stakeholders. For

⁸ The World Bank reclassified Tunisia to the lower middle income category in 2015 based on stagnating gross national income per capita.

example, USAID supported domestic election monitoring, including Tunisia's first ever parallel vote tabulation, to increase transparency and Tunisian ownership of the 2014 election processes.

USAID's 2011-2014 Tunisia Transition Initiative (TTI), implemented by the Office of Transition Initiatives (OTI), applied similar principles. TTI activities responded to emerging political issues and focused on increasing civic engagement, building the capacity of civil society organizations, increasing the voice of marginalized groups, including youth and women, in political processes, fostering tolerance, and countering VE. TTI implemented a quick response framework to guide the program in responding rapidly to the evolving political landscape, resulting in the following good practices: 1) narrowing the geographic focus to concentrate gains and increase impact; 2) focusing on key demographics, such as youth, to promote opportunities for decision-making and community involvement; 3) empowering local staff in programmatic decision-making to articulate clear, responsive, and flexible programming; 4) harnessing the power and reach of social media; and 5) clustering and linking activities to achieve activity sub-objectives, in addition to coupling one-time events with support to institutions, such as schools or youth centers. These good practices have been complemented and furthered by other ongoing USG assistance, including grants managed by the Middle East Partnership Initiative (MEPI) and the Department of State's Democracy, Rights, and Labor (DRL) bureau, focused on heightening government accountability, strengthening civil society, and promoting inclusive youth, gender, and regional participation.

Taken together, lessons learned from the USG's prior Tunisia programming highlight several important themes: 1) building on existing Tunisian capacity and institutions; 2) strategically leveraging investments to maximize results; and 3) building flexibility into programming to adapt to a dynamic operating environment and seize new opportunities as they arise.

USAID's Comparative Advantage and Other Stakeholders

Numerous multilateral organizations, bilateral agencies, and international financial institutions (IFIs) in Tunisia provide assistance and partnerships on different levels and in interrelated sectors. Collaborating with Tunisian and international stakeholders is critical to helping USAID to achieve the CDCS results.

USAID's Comparative Advantage

USAID's previous success in implementing private sector-led employment qualifies it to continue such efforts, consistent with international approaches coordinated through G7+EU-Tunisia Partner Groups. USAID has also identified specific programming gaps - such as building effective and responsive local governance systems, and building community resilience - that are not being sufficiently addressed but are critical to advancing GOT-identified priorities. For example, USAID activities under DO 2, IR 2.1 will complement broader decentralization efforts being led by the World Bank and half-a-dozen other international partners. Community

resilience activities under DO 2, IR 2.2 will complement other international partner-led community initiatives.

International Partner Coordination and Mapping

USAID meets regularly with the international community in Tunisia to discuss ways to collaborate and leverage opportunities. For example, USAID is a participant in regular international partner meetings on the topics of decentralization, local governance, and employment. The G7+EU-Tunisia Partners Group aims to improve international partner coordination and support implementation of the SDP. Under the G7+EU-Tunisia Partners Group, the USG co-chairs a thematic working group on Human Development and Social Inclusion.

In preparation for the CDCS, USAID conducted its own initial international partner mapping and consulted mapping efforts carried out by EU, the World Bank, DFID, and the Italian government. The G7+EU-Tunisia Partners Group conducted a similar mapping exercise collaboratively with the GOT, which USAID supported. Broad themes exist. International financial institutions are focused on high-level economic reform and infrastructure initiatives, while the G7, other bilateral international partners, the EU and the United Nations are focused on improving private sector employment and social safety nets while supporting the democratic transition. USAID will continue international partner mapping related to this CDCS, as needed.

Local Systems

USAID's Local Systems Framework builds on principles of aid effectiveness and sustainability that have developed over years of USAID's operations around the world. In order to improve long-term sustainability of development outcomes, the CDCS embraces the Local Systems Framework's ten core principles and integrates many of them directly into its strategic framework. For example, the CDCS focus on engaging local systems, embracing flexibility, and monitoring and evaluating for sustainability are all core Local Systems principles. In addition, the Local Systems Framework calls for improving understanding of the local context by mapping local systems. The CDCS consultation process started this work, but USAID also intends to conduct a limited political economy analysis to further map these systems. The CDCS emphasis on inclusion - specifically for women, youth, and people living in geographically marginalized areas - reflects the Local Systems belief that "a country system should be framed inclusively."⁹

Country Transition Plan

USAID's role in Tunisia must support the long-term sustainability of development outcomes as defined by the Tunisian people. USAID recognizes that the overall goal of its assistance is to enable a *Tunisian-led and owned* inclusive socio-economic transformation. This CDCS

⁹ USAID, "Local Systems: A Framework for Supporting Sustained Development," April 2014.
<https://www.usaid.gov/policy/local-systems-framework>

represents USAID's re-engagement with Tunisia at a critical moment in the consolidation of its democratic reforms.

The CDCS will help address core issues facing Tunisia, such as bolstering economic growth and helping consolidate Tunisia's democratic institutions. Nevertheless, addressing these challenges requires more nuanced, adaptive, and flexible development planning, and USAID fully anticipates the need for programming beyond 2020.

As the relationship evolves, USAID's role will gradually shift to more policy assistance. DO 1, with its economic growth focus, has the most immediate potential for transition. Initial programming will directly help create jobs by working with individual firms, but over the longer-term, as job creation reaches necessary levels, USAID's efforts to support policy reforms and promote stability will naturally transition into more focused policy assistance. USAID firm-level assistance will also transition to advisory assistance commercially available from the private sector. Such assistance will be coordinated with USAID's efforts, over the next five years, to increase private sector engagement by finding more ways to engage with domestic and global private sector partners. New and deeper private sector partnerships will be an additional resource to build sustainable, long-term, Tunisian-owned development. Transition under DO 2 is less predictable, given the nascent state of Tunisia's sub-national institutions and its overall fragility. By embracing a Local Systems approach and constantly reviewing progress to shift programming as needed, USAID will seek ways to accelerate transition and ensure Tunisian ownership over these issues.

Sustainable Development Goals

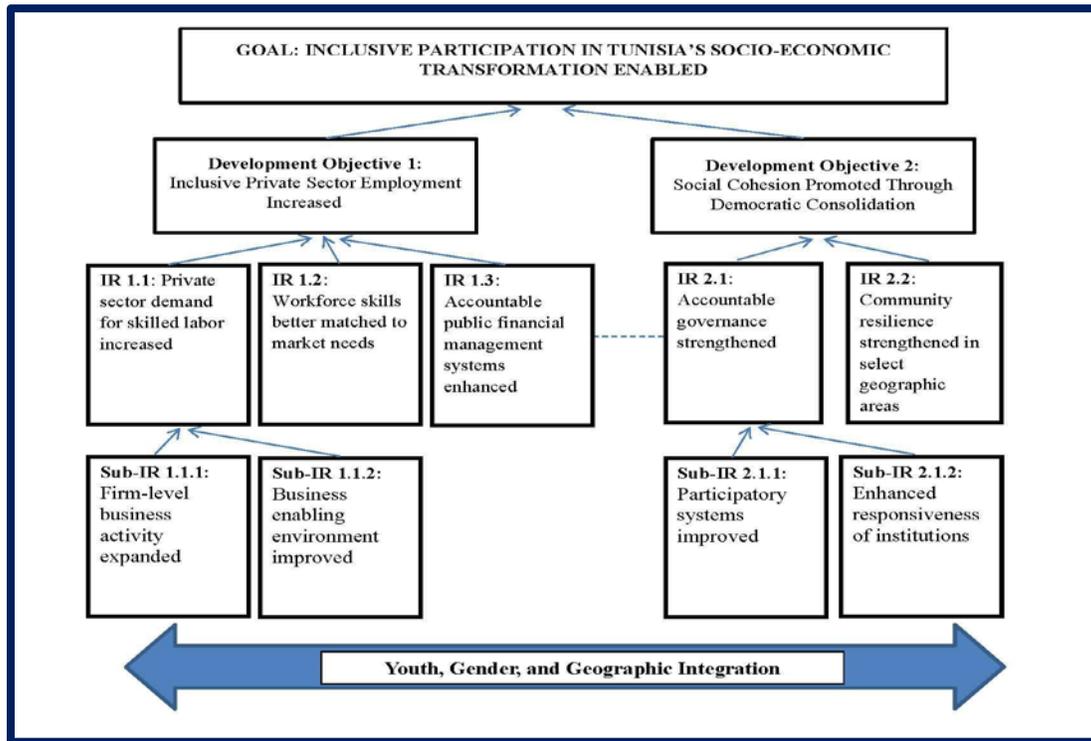
USAID, working in close partnership with Tunisians, will help advance Tunisia's progress toward achieving the 2030 Sustainable Development Goals (SDGs).¹⁰ The GOT actively participated in SDG development through the official UN-led process and is integrating these goals into its proposed SDP, with the goal of fully supporting their implementation at regional and international levels. In addition, the GOT, through the framework of South-South cooperation, has committed to promoting joint projects with neighboring countries in Africa. Tunisia also engages in South-South cooperation with Indonesia and the African Union. Both of these relationships have been supported by USAID and contribute to Tunisia's growing role on the international stage.

¹⁰ The Sustainable Development Goals (SDGs) are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. The 17 Goals build on the successes of the Millennium Development Goals while including new areas such as climate change, economic inequality, innovation, sustainable consumption, peace and justice, among other priorities. <https://sustainabledevelopment.un.org/>

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USAID’s programming under the CDCS will contribute to a number of SDGs, including gender equality, promoting jobs and economic growth, reduced inequalities, peace and justice, and partnering with host countries and other development actors to achieve the goals. DO 1, for example, with the objective of promoting inclusive private sector-led growth, will contribute to Goal 8, promoting “full and productive employment and decent work for all women and men, including for young people and persons with disabilities.” IR 1.3, with its emphasis on improving Tunisia’s internal public financial management (PFM), will directly contribute to Goal 17 by strengthening domestic resource mobilization and execution. DO 2 will contribute to Goal 16 by promoting “effective, accountable, and inclusive institutions at all levels.” The CDCS emphasis on integrating gender also reflects Goal 5, which calls for “women’s full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic, and public life.”

Results Framework and Development Hypotheses



CDCS Goal: Inclusive Participation in Tunisia’s Socio-Economic Transformation Enabled

The CDCS development hypothesis is that to be more open, inclusive, and socially integrated, Tunisia must unleash its private sector and promote economic opportunities for all. Simultaneously, Tunisia must achieve broader and more inclusive participation in governance in order to guarantee improved public sector accountability and service delivery. Taken together, these elements will plausibly contribute to the CDCS Goal, “Inclusive Participation in Tunisia’s Socio-Economic Transformation Enabled.”

While focusing on two priority objectives – private sector employment and social cohesion – the new USAID strategy for Tunisia will provide development solutions that explicitly recognize the need for stronger integration of youth, women, and geographically marginalized regions. USAID recognizes that this goal encompasses a number of critical changes that are needed to move Tunisia forward. It will require a strong and sustained commitment from the GOT, as well as the participation of Tunisian stakeholders in civil society and the private sector, and effective coordination with other international partners.

This results framework is designed to maximize flexibility and adaptive management. Given Tunisia's complex operating environment, USAID's recent re-engagement, and the need for additional learning and analysis, USAID focused the framework on the goal, DO, and IR levels. Where sufficient knowledge exists- such as under IRs 1.1 and 2.1-USAID has identified sub-intermediate results (sub-IRs). Sub-IRs are not provided for IRs 1.2, 1.3, or 2.2, as they represent new entry points for USAID's assistance in Tunisia and require greater analysis. As new knowledge becomes available through the project and activity design processes, and through further investigation of the CDCS learning questions, the CDCS sub-IRs will be updated appropriately.

Nexus between Development Objectives

DO 1 and DO 2 are complementary. Improvements to Tunisia's economic and social conditions, for example, will be imperative to maintaining and furthering democratic gains. Similarly, economic growth will require political stability and accountable governance. Activities under DO 1 and DO 2 will be closely coordinated to ensure that programming reflects their fundamental linkages. Possible areas for synergies include:

- Joint implementation of public opinion surveys and civic education campaigns (e.g., anti-corruption);
- Strengthened internal controls and government integrity in tax administration and other areas of PFM;
- Coordinated interface with GOT counterparts to support and leverage existing relationships and reinforce messaging;
- DO 2 activities co-located as appropriate with successful ongoing DO 1 activities to benefit from existing relationships and to apply lessons learned; and
- Joint learning around cross-cutting issues like social cohesion, youth, gender, and other areas, as identified.

USAID will pay special attention to specific GOT priority areas with clear connections to both DOs, recognizing the intrinsic linkages between issues of public financial management, accountable governance, and community resilience. The issue of decentralization, for instance, has clear connections to IR 1.3's focus on PFM, as well as IR 2.1's emphasis on accountable governance. Working on this issue will require close coordination both within USAID as well as with the broader USG community and international partners. USAID will ensure that projects and activities across the CDCS are managed in such a way as to ensure shared responsibility for management and interlinked results. USAID also recognizes the possibility that divergent priorities may emerge across DOs, though no major divergences have emerged in the CDCS process.

Cross-Cutting Themes

Gender

Gender dynamics affect the CDCS goal and objectives across all sectors. To the extent possible, the CDCS will support the human rights-based approach, with a particular eye toward protecting and giving voice to vulnerable populations, such as women and gender and sexual minority communities.

While Tunisian women have long enjoyed comparably greater legal rights and freedoms than women elsewhere in the region, this relatively positive history risks obscuring persistent inequalities in gender roles. While those roles have begun to shift, the implications for both men and women in this shift have been profound. For example, three out of four working-age women are not active in the labor force, and only 20 percent of working-age women are actually employed.¹¹ Violence against women remains a serious problem, 47 percent of women between the ages of 18-64 reported experiencing physical violence.¹² Significant disparities continue in areas such as inheritance laws and salaries, and childcare and family leave are limited.

Gender dynamics also have a geographic dimension. The gender analysis prepared for this CDCS revealed the disproportionate political, social, and economic exclusion of rural women. In 2014, election observers reported the number of rural women without national identification documents necessary to participate in the vote may have been as high as 300,000.¹³ Some observers reported instances of rural women being discouraged from participating as candidates, while others reported instances of unqualified rural women recruited as candidates in order to satisfy electoral list requirements.¹⁴ Some election workers reported that rural female voter turnout was low due to illiteracy, lack of necessary identification documents, and distance from polling centers.¹⁵ The National Democratic Institute reported that women voters in rural areas sometimes struggled to cast their votes for other reasons, including difficulty identifying desired candidates on the ballot, as well as some cases of male family members voting in their place.¹⁶ Similarly, geographic dimensions also play a role in female economic participation. The

¹¹ INS, “National Survey on Population and Employment,” 2013.

¹² Enquête nationale sur la violence à l'égard des femmes en Tunisie, ENVEFT. ONFP/AECID, “National Survey on Violence Against Women in Tunisia,” 2011.

¹³ National Democratic Institute, “Final Report on the 2014 Legislative and Presidential Elections in Tunisia,” November 20, 2015. [https://www.ndi.org/files/Tunisia%20Election%20Report%202014_EN_SOFT%20\(1\).pdf](https://www.ndi.org/files/Tunisia%20Election%20Report%202014_EN_SOFT%20(1).pdf)

¹⁴ The Carter Center, “Legislative and Presidential Elections in Tunisia,” 2014. https://www.cartercenter.org/resources/pdfs/news/peace_publications/election_reports/tunisia-final-rpt-2014-elections.pdf.

¹⁵ Global Network for Rights and Development (GNRD) and International Institute for Peace, Justice and Human Rights (IIPHR), “Joint Observation Mission to Tunisia Parliamentary Elections: Report,” November 21, 2014.

¹⁶ National Democratic Institute, “Final Report on the 2014 Legislative and Presidential Elections in Tunisia,” November 20, 2015. [https://www.ndi.org/files/Tunisia%20Election%20Report%202014_EN_SOFT%20\(1\).pdf](https://www.ndi.org/files/Tunisia%20Election%20Report%202014_EN_SOFT%20(1).pdf)

proportion of women who are economically active is higher in urban areas - 26 percent compared to 20 percent in rural areas.¹⁷

Gender and sexual minorities also remain marginalized and discriminated against within Tunisian society. Gender and sexual minority communities lack equal access to legal and justice services and face political and economic discrimination.

Gender also presents hurdles to economic participation. In 2015, the World Economic Forum ranked Tunisia as 127 out of 142 in their gender gap index, which includes measures of economic participation (i.e., typically active participation in the labor force).¹⁸ Women have benefited from gains in overall education rates: today, more than 30 percent of Tunisian women between ages 25 and 29 have college degrees. At the same time, finding adequate and appropriate employment remains a challenge, particularly for educated women. In 2015, the unemployment rate (which only measures people active in the labor force) for women reached 22.8 percent against 12.5 percent rate for men. Also, unemployment rates for men have come down consistently since 2011, while the unemployment rates for women, who are less likely to find jobs in the private sector, have not improved significantly. Women with higher education were even more likely to be unemployed compared to their male counterparts, with respective rates of 38.4 percent unemployment and 18.9 percent. Most telling, only 26 percent of working-age women are active in the labor force which means that only about one in five Tunisian women are considered employed.¹⁹ Many factors influence the unequal participation of women in the Tunisian workforce, including social norms and marital status.

The CDCS will contribute to the outcomes specified in USAID's Gender Equality and Female Empowerment Policy²⁰ by promoting equal participation in Tunisia's socio-economic transformation. USAID will collect sex-disaggregated data and utilize design approaches that take into account gender dynamics for both men and women. USAID's programming in the gender space will also be informed by its continued implementation of two cross-cutting, regionally funded activities - a pilot regional GBV activity looking at the economic and social costs of GBV in the MENA region and a health activity working with civil society on prevention programming for human immunodeficiency virus (HIV) at-risk populations, specifically gender and sexual minority communities. The GBV activity, for instance, is exploring the linkages between three distinct types of GBV (early and forced marriage, domestic violence, and sexual harassment) and a country's GDP. Findings from this activity will be used to inform the CDCS country-level strategic approach as well as project- and activity-level interventions.

¹⁷ World Bank, "Labor Policy to Promote Good Jobs in Tunisia," 2015.

¹⁸ World Economic Forum, "The Global Gender Gap Index. Tunisia Country Scorecard," 2015. <http://reports.weforum.org/global-gender-gap-report-2015/economies/#economy=TNS>

¹⁹ INS, National Population and Employment surveys, 2016. <http://www.ins.tn/fr/publication/note-sur-lenqu%C3%AAte-nationale-de-l'E2%80%99emploi-t1-2016>

²⁰ <https://www.usaid.gov/what-we-do/gender-equality-and-womens-empowerment>

Youth

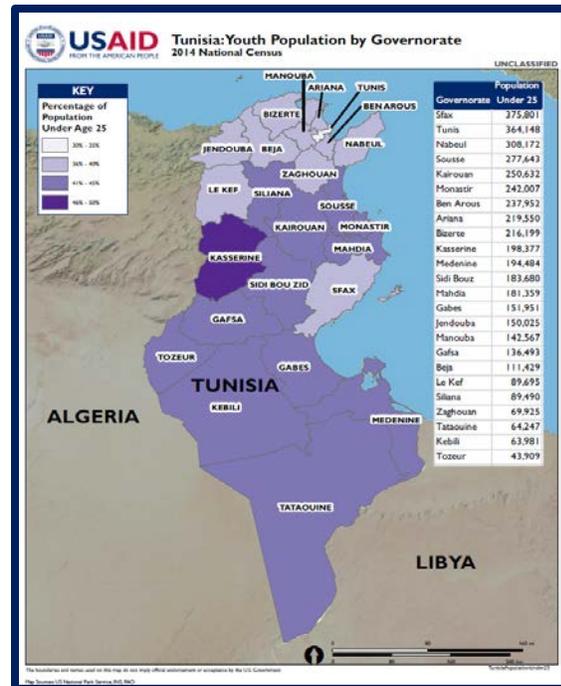
In recent years, Tunisia’s population growth rate has slowed to around one percent per year. While the youth bulge of the 1990s has tapered off and many young Tunisians are now entering their prime working years, there are approximately 2.5 million youth (about 23 percent of the total population) between the ages 10 and 24.²¹ The youth bulge transition presents Tunisia with the opportunity to capitalize on a potential demographic dividend. While Tunisia has made impressive social and political achievements, inclusion of young Tunisians remains a largely unfinished project and addressing the legitimate aspirations of Tunisian youth is critical for Tunisia to sustain its positive momentum.

Geographic dimensions play into this issue as well. Many of the unemployed reside in the south and interior of Tunisia. Educated youth in the interior and south face difficult challenges finding economic opportunities. Among educated youth (those who completed secondary school), 39.1 percent in Gafsa, 39 percent in Kebili, and more than a third in Tataouine are unemployed. Gender also factors into the equation, with educated women in particular facing much higher unemployment rates than men. Women tend to stay longer in school than men.

Aside from unemployment, Tunisia’s youth perceive a lack of change in their everyday lives, which reinforces feelings of social and political alienation. According to reports from The Carter Center, National Democratic Institute, and International Republican

Institute, youth turnout for the most recent elections was visibly low.²² It is in this context that barriers to political, social, and economic inclusion differ for young women and men from different backgrounds, especially from marginalized regions. While the frustrations of university graduates dominate media narratives, youth from other groups face distinct challenges to inclusion, which require tailored programmatic approaches.

In accordance with GOT emphasis on engaging youth meaningfully in its proposed development plan, and following the principles outlined in USAID’s Youth in Development Policy, the CDCS



²¹ United Nations, Department of Economic and Social Affairs, Population Division, “World Population Prospects: The 2015 Revision,” 2015. Custom data acquired via website.

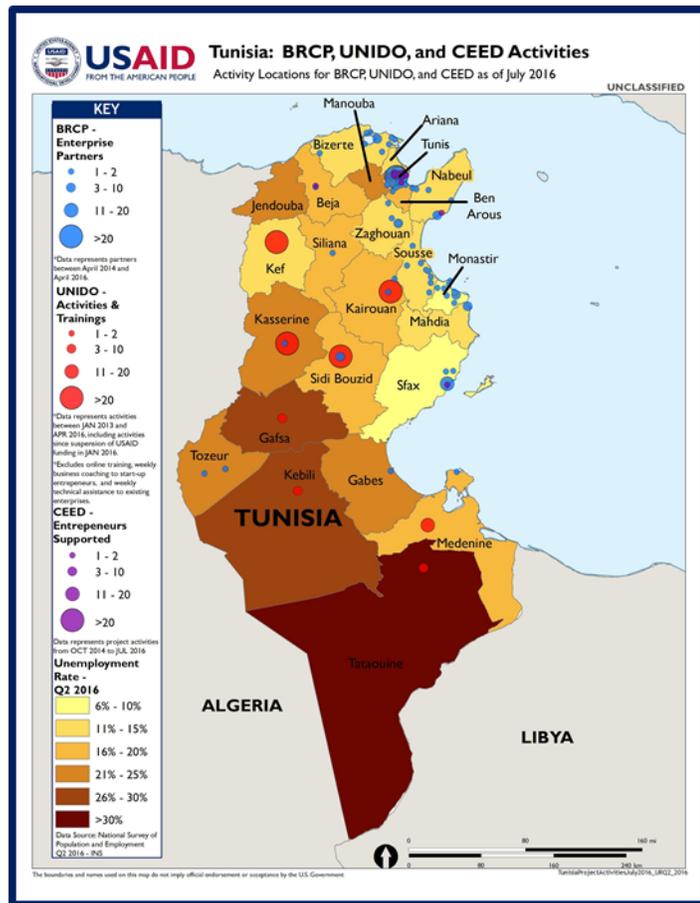
²² [https://www.ndi.org/files/Tunisia%20Election%20Report%202014_EN_SOFT%20\(1\).pdf](https://www.ndi.org/files/Tunisia%20Election%20Report%202014_EN_SOFT%20(1).pdf)

will empower youth to advance their own social, economic, and political development. DO 1 will work with youth to increase job-related skills and private-sector employment opportunities. The Mashrou3i activity, which targets job opportunities for young Tunisian women and men in vulnerable regions, has been highly successful and will be expanded to cover 14 interior governorates.²³ DO 2 will strengthen individual and community resiliency through targeted community-identified and community-driven programming, intended to productively engage youth and other vulnerable populations while also mitigating drivers of radicalization and violent extremism.

Geographic Integration

Regional social, economic, and political divides are persistent in Tunisia and fuel discontent and conflict. These divides include longstanding inequalities in such areas as employment, access to public services, poverty rates, public funds allocation, and unequal political representation. Voting patterns in 2014 reflected this divide, with coastal governorates showing a 70-75 percent voter turnout, while interior governorates saw turnouts in the 55-65 percent range.²⁴

The CDCS reflects the GOT’s prioritization of geographic integration within Tunisia, as well as global and regional integration. While the proposed SDP heavily emphasizes physical infrastructure investment to improve Tunisian sub-national integration, USAID’s efforts under IRs 1.3, 1.1.2, and 2.1 will address “soft” issues - such as the collection and distribution of resources and responsive governance - related to geographic integration.



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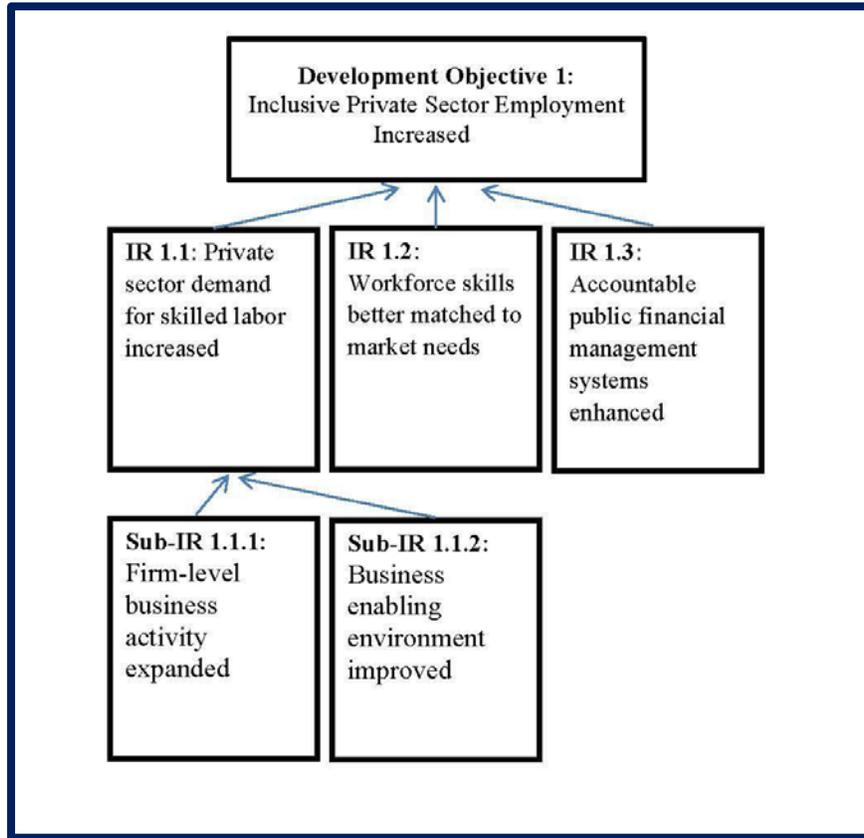
https://www.unido.org/fileadmin/user_media_upgrade/What_we_do/Topics/Business_investment_and_technology_services/Mashrou3i_Fostering_Youth_Employment_through_Job_Creation_and_Entrepreneurship_Development_in_Tunisia_Fact_Sheet.pdf

²⁴ <http://tunisiaelectiondata.com/>

USAID will support geographic integration through three tracks: locating programs geographically near each other, integration of and among Tunisian sub-national communities, and Tunisian integration into global or international partnerships and institutions, often with the aim of promoting regional public goods. Location of USAID activities in the same geographic service areas will be considered when this might improve impact. USAID already locates some existing economic growth activities near each other (see map). Under the CDCS, this practice will be expanded, where appropriate. For example, IR 2.2 community resilience activities may be geographically integrated with youth entrepreneurship activities under IR 1.1 that serve the same local youth populations.

The CDCS will also support Tunisia's global integration by promoting accountable governance mechanisms and institutions and supporting South-South cooperation. In the Middle East, USAID supports Tunisian participation in regional agricultural networks, water resource governance, and anticorruption investments. For example, USAID currently supports a regionally-funded activity with the Arab Organization of Supreme Audit Institutions (ARABOSAI), the regional affiliate of the International Organization of Supreme Audit Institutions. ARABOSAI is located near Tunisia's *Cour des Comptes* and builds local capacity throughout the region to implement international audit standards. Tunisia also benefits from African Union continental technical bodies to develop best practices and lessons learned that bring together government officials and country technical units. USAID provides support to the Comprehensive African Agriculture Development Program and also supports the implementation of other relevant African Union charters with which Tunisia is associated, such as the African Charter on Democracy, Elections, and Governance, as well as continent-wide education and trade integration initiatives. Tunisia recently opened two new trade offices in sub-Saharan Africa to promote geographic integration and trade linkages. Tunisia is seen as a thought leader for sub-Saharan Africa on agriculture, democratic reform, and vocational education.

Development Objective 1: Inclusive Private Sector Employment Increased



Development Hypothesis

DO 1 is based on the idea that, if the GOT can maintain its overall macroeconomic balance and implement meaningful economic reforms that improve the business enabling environment, workforce skills, and public financial management systems, private sector firms will respond by increasing investment, expanding their business activity, and hiring more workers. Higher employment, in turn, will directly boost inclusion and enable much broader participation by boosting Tunisian confidence and economic hope for the future. DO 1 is driven by the need to promote inclusive, private sector-led growth that will reduce unemployment and contribute to Tunisia's longer-term socio-economic transformation.

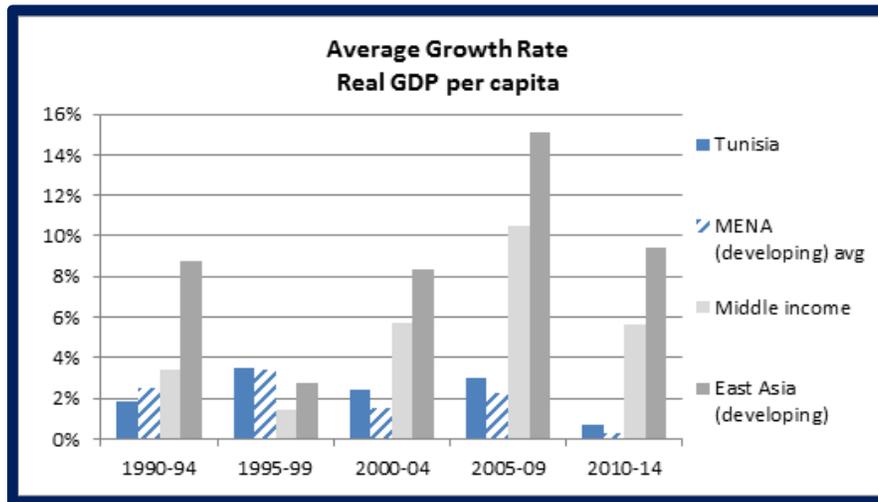
Background

Tunisia's private sector does not create enough jobs for young Tunisians entering the job market every year. Businesses expand very slowly, if at all, and the private sector is marked by declining competitiveness, low or zero productivity growth, informality, low value-added work, and very

For Public Distribution

slow job creation. These trends are reflected in the IMF's estimates for Tunisia's five-year economic growth potential, which is only expected to reach 3.7 percent per year on average from 2016 to 2021.²⁵

Tunisia's economic growth trend over the last two decades has been below that of most other middle income countries, and far lower than that of so-called high-growth countries that have had the most success in job creation, reform, and development. Per capita GDP growth averaged only about three percent per year between 1990 and 2010, and has slowed since then (see chart below). Tunisia's gross national income per capita has deteriorated to \$3,970, a level not seen since 2008. As a result, in 2015 the country slipped from the ranks of upper middle income countries and was reclassified as a lower middle income country by the World Bank.²⁶

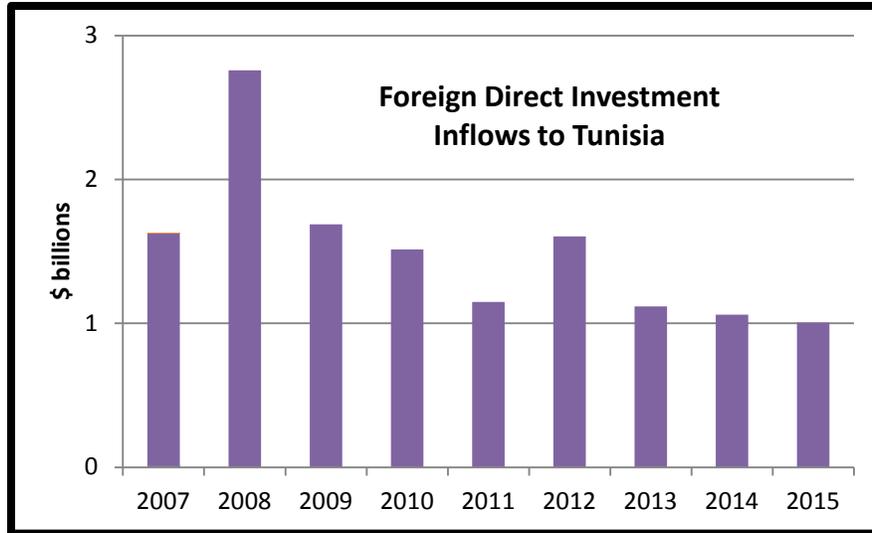


Source: World Bank Development Indicators, 2016.

According to the latest IMF reports, gross fixed capital formation (a proxy for private sector investment) fell from 21.1 percent of GDP in 2000 to 16.9 percent of GDP in 2014 – roughly half of comparable investment rates in nearby Morocco. Total foreign direct investment inflows averaged only \$1.6 billion per year over the past decade, equivalent to about three percent of GDP and quite low by global standards but on par for the region.

²⁵ International Monetary Fund, "MENA Regional Economic Outlook," April 2016.

²⁶ The World Bank defines lower middle-income economies as those with a GNI per capita between \$1,026 and \$4,035.



Source: United Nations Conference on Trade and Development, World Investment Report, 2016.

Today, only 40 percent of working-age Tunisians are in private or public sector employment.²⁷ Moreover, youth, women, and Tunisians living in underserved regions in the interior miss out on much of what little economic opportunity is created through the private sector nationally. Economic despair erodes support for the GOT's development agenda, feeds feelings of disenfranchisement and resentment, and undermines social and political stability.

Unemployment, which leads to household financial insecurity and is the leading barrier to economic participation, is at the heart of Tunisia's challenges today. The GOT National Institute of Statistics reports that during the second quarter of 2016, 629,600 people were unemployed, including 236,000 graduates. Economic growth in the decade prior to the 2011 revolution was strong enough to bring Tunisia's unemployment rate down to 13 percent by 2010. However, this growth was concentrated in low value-added sectors such as construction and tourism, while government was the main source of new jobs for skilled workers. Even these modest gains were nearly wiped out in 2011, when many private sector jobs disappeared in the wake of the revolution and more than 200,000 Tunisians joined the ranks of the unemployed. Despite having declined from 18 percent since then, the unemployment rate remains stubbornly high at over 15 percent, and is even higher for youth (35 percent), recent graduates (67 percent), and women (24 percent). Nationally, the unemployment rate for men is 12 percent. Unemployment is geographically concentrated, as well, with joblessness significantly higher in the interior. For example, the official jobless rate has remained above 30 percent in Tataouine, a city about 300 miles south of the capital.

²⁷ Working-age is defined by the Tunisian authorities as 15 to 64 years of age.

The ratio of economic growth to job growth (“employment elasticity”) was 2.0 from 2007-2010 and even lower at 1.3 from 2012-2015, meaning that even if the employment elasticity returns to 1.5 or closer to two, as is likely in the near future, the four percent GDP growth rates projected by the IMF for 2017-2022 would very likely support more than 100,000 net new jobs per year, sufficient to lower the overall unemployment rate to about 10 percent by the end of the CDCS period.²⁸

Female participation in the labor market has remained at 24-26 percent of working-age women for more than a decade, versus the GOT’s current target of 35 percent. Taking into account female unemployment and women not active in the labor force, only 20 percent of working-age Tunisian women are actually employed in a wage or salary job.²⁹ The new jobs created per year since the 2011 revolution were sufficient to employ less than half of the 120,000 new annual entrants to the cohort of working-age Tunisians, leading to nearly continuous increases in the ranks of the unemployed or discouraged workers as reflected in low labor-force participation rates.

Over the past two decades, Tunisia’s labor market has been marked by an over-reliance on public sector employment for Tunisia’s increasingly educated and skilled workforce and simultaneously, the failure of the private sector to create enough good jobs in the formal sector except in a few low-skill sectors (such as construction). Tunisia’s public sector currently includes 583,000 employees in the central and regional administration and 33,000 in local authorities, as well as 180,000 employees in public companies. This means that 1 in 4 working Tunisians are employed by the public sector.³⁰ In fact, the majority (55 percent) of Tunisian workers with a post-secondary education were employed by the public sector in 2012.

Based on World Bank data, Tunisia’s population grew by 110,000 from 2014-2015 to reach 11.1 million, of whom 48 percent or about four million were in the labor force (defined as working or looking for work). Over the life of this CDCS, a Tunisian working-age population growing about 97,000 per year and the labor-force participation rate increasing to above 50 percent implies that well over half a million new jobs are needed over the next five years, or almost double the average of 60,000-70,000 jobs created annually over the past two decades. The GOT believes that its proposed SDP infrastructure investments, if fully executed, will create hundreds of thousands of jobs, although presumably many will be short-term construction jobs.

In summary, private sector job creation is currently constrained by depressed demand for workers, since most private businesses rarely expand and therefore do not hire additional

²⁸ This assumes that, 2015-2021, total labor force participation increases from 47 percent to 50 percent (male, from 69 percent to 72 percent; female from 26 percent to 28 percent).

²⁹ INS, “National Survey of Population and Employment.” Labor force participation rates have been consistent for more than a decade. However actual female unemployment remains higher than the pre-2011 revolution period.

³⁰ General Committee of the Civil Service (CGFP), 2014, as cited in the World Bank, “Public Sector Size and Performance Management - Tunisia Case Study,” January 2015.

workers (IR 1.1). To a lesser extent, difficulties in identifying job applicants with appropriate skills (IR 1.2) has been a contributing factor to Tunisia's weak job creation. Related to all of this is the more subtle, yet critical, linkage between Tunisia's PFM systems (IR 1.3) and private sector growth, as Tunisia's mounting fiscal imbalances reduce investor and business confidence in macro-fiscal stability and reduce investments needed for robust and sustained job creation. DO 1 investments will help address these issues using a multi-pronged approach in the hopes of accelerating shared prosperity and broader economic participation through inclusive private sector employment that can be sustained past the life of the strategy.

Critical Assumptions and Risks

DO 1's logical framework takes into account a number of critical assumptions and risks, which are reflected in the DO structure and thinking. These include:

Critical Assumptions

- Inadequate demand for skilled labor is the most important driver behind Tunisia's chronic unemployment.
- Better labor market matching mechanisms will allow some private firms to locate and hire workers who are currently un- or under-employed.
- Private firms with a comparative advantage are able to access sufficient financing to expand if opportunities exist to expand.
- Improving the business enabling environment will stimulate private investment overall, increasing employment broadly across the economy.
- An improved regulatory environment and improved public financial management systems will reduce burdens on private firms, improve investor confidence and improve firm competitiveness.
- Achieving the targeted labor force participation rate requires a dramatic shift in Tunisia's education and training systems.

Risks

- The GOT's continued commitment to a comprehensive major reform program encompassing reform of the business enabling environment, improved macroeconomic management, education, and reduction of barriers to competition throughout the economy is crucial to a strategy focused on increased private-sector competitiveness and growth.
- General social stability is required for robust and sustained economic growth—episodes of increased instability, including large-scale demonstrations, strikes and/or violence could forestall the reform process underway and reduce investment and economic activity, exacerbating unemployment.
- Political instability and further economic setbacks in the economies of Tunisia's primary economic partners (especially the Eurozone) could further depress demand and foreign investment, offsetting efforts to increase economic activity and employment.

- Ongoing regional crises present significant risks. A worsening of regional conflicts would further strain the Tunisian economy and inhibit its ability to attract foreign investment.

Cross-Cutting Issues

Gender

Historically, Tunisia has been one of the most progressive countries in the Arab World in promoting women's rights. However, there is still much to be done to empower women and to strengthen their contribution to the Tunisian economy. The vast majority of educated women who do find a job work in the public sector. Fewer than one-quarter of the employees working for formal, private sector businesses are women.³¹ In contrast, two-thirds of Tunisians surveyed by the International Republican Institute's Center for Insights in Survey Research over the last two years have expressed a preference for employment other than working for the Tunisian government.³² As noted below, activities under IR 1.1 and IR 1.2 will be designed partly to help more women find private sector jobs in line with GOT labor force participation targets.

Under IR 1.1, for example, USAID will continue support to SMEs, many of them women-owned, to help them strengthen and expand. IR 1.2 activities will provide training and capacity building to women and other beneficiaries to increase their professional marketability. Finally, activities under IR 1.3 will explore the gender dimensions of PFM.

Youth

Youth economic exclusion is a critical barrier to advancing prosperity and security in Tunisia. According to a World Bank study, a large portion of the youth population in Tunisia are "Not in Education, Employment, or Training" (NEET), and job seekers spend an average of more than three years searching before finding a job.³³ To cope with unemployment, many young Tunisians are migrating to peri-urban areas in greater Tunis seeking livelihoods and jobs, sometimes leading to social marginalization and exclusion. The unemployment and NEET rates are high for youth but much lower for older Tunisians, suggesting that policies and programming to address unemployment should focus first and foremost on promoting private sector job growth for youth, which is the primary focus of DO 1. In addition, the very low level of economic participation among young women – quite different from young men – suggests that cultural barriers may serve to exclude young women from the labor market. To better understand this challenge, as part of the CDCS MEL plan, USAID will assess the constraints to employment for youth. Workforce development activities under IR 1.2 may help address some of these barriers by providing targeted, appropriate training opportunities to job seekers.

³¹ "National Survey on Population and Employment (ENPE)," 2012.

³² Center for Insights in Survey Research, "Public Opinion Survey of Tunisians: May 24-30, 2016," http://www.iri.org/sites/default/files/wysiwyg/iri_tunisia_survey_may_2016_public.pdf

³³ World Bank, "Breaking the Barriers to Youth Inclusion," 2014.

Geographic Integration

USAID will seek ways to geographically integrate its activities with other USG and international partner efforts to improve employment outcomes outside of the coastal regions. USAID plans to co-locate governance and community resilience activities under DO 2 with entrepreneurial programming under DO 1 to leverage cross-sectoral gains.

DO 1 will address geographic integration across Tunisia by strengthening business value chains and supporting vocational training that will provide access to employment opportunities for job seekers, including those in the interior and regions lacking access to such services. The CDCS MEL plan includes the critical learning question of whether and how constraints to employment vary from region to region.

IR 1.3 will support more transparent, accountable PFM, with the goal of promoting a healthier economic environment for business creation and growth, while also ensuring the equitable and transparent distribution of resources, risk sharing, and opportunity throughout Tunisia. IR 1.3 will help lay a fiscal foundation for eventual decentralization and will improve accountable governance by focusing on internal controls and government integrity. In support of Tunisia's global integration, DO 1 will support training to strengthen Tunisia's international trade value chains, including Tunisia's growing role in the international education and training industry.

IR 1.1: Private Sector Demand for Skilled Labor Increased

Under current conditions, the primary constraint to job creation in Tunisia is weak private sector demand for skilled workers. Fortunately, due to its historical focus on supporting improved education, Tunisia currently enjoys a large cohort of highly-educated workers capable of contributing to continued economic growth. In order to address low private sector demand for Tunisian skilled labor, IR 1.1 will address specific constraints facing private enterprises at two levels: the firm level and the business enabling environment level. With a keen focus on firm-level growth and expansion, an increase in firms' productivity, sales, and profitability will increase demand for skilled workers.

Sub-IR 1.1.1: Firm-Level Business Activity Expanded

A firm-specific approach to increasing employment by reducing barriers to expansion is important to produce rapid results. As of 2015, more than 97 percent of Tunisia's 680,000 private sector, non-farm registered establishments were micro-enterprises (employing five or fewer), and 87 percent were actually one-person firms (i.e. the registered self-employed). Sub-IR 1.1.1 expects to achieve most of the increases in employment from the roughly 20,000 establishments that already have more than five employees.

Targeted assistance to small and medium enterprises (SMEs) with strong potential for expansion will include support for improved marketing, management, human resources, and certification,

as identified through specifically-tailored partnership agreements. USAID has already proven the effectiveness of this firm-level approach in Tunisia, helping to create more than 10,000 private sector jobs across 230 private enterprises between May 2014 and April 2016. This firm-based approach to job creation will build relationships with the stakeholders who will be the strongest advocates for the business enabling environment reform process (Sub-IR 1.1.2) since growing firms will be in the best position to identify and prioritize policies needed for private sector growth. This firm-based approach will be supported by parallel efforts to match workforce skills with actual private sector job openings under IR 1.2. USAID will strengthen and further refine this firm-level approach by addressing learning questions included in the MEL plan, including questions related to the extent and influence of firm growth along value-chains and the best ways to target assistance to maximize value-chain impact.

Sub-IR 1.1.2: Business Enabling Environment Improved

Removing the long-standing structural obstacles to private sector growth is a critical element of USAID's strategy and is key to more successful creation of new businesses. It is expected that working to improve Tunisia's business enabling environment will grow in relative importance during the strategy period. The Tunisian transition from a state-led model dependent on low-value-added exports, excessive licensing and regulation, limited competition, and inflexible and outmoded labor markets will require substantial reform in the nation's laws, commercial codes, and public institutions. These needed reforms have been well-articulated in the proposed GOT SDP and many are underway, receiving substantial support from international partners.

For example, the Competition Law of September 2015, enacted to speed up the process of antitrust hearings and increase penalties for anti-competitive behavior, requires operational decrees and capacity building to ensure expedient implementation by the new Competition Council. The Public-Private Partnership Law of November 2015, while instrumental to attracting new private investment to a growing pipeline of infrastructure projects identified through the proposed five-year SDP, requires implementation procedures and guidelines. Also, the Investment Act, adopted on September 17, 2016, is expected to lead to streamlined rules for new businesses and protect investor rights, but must be reconciled with a complex array of investment incentives, rules, and regulations to generate the expected socio-economic benefits.

The Doing Business Index shows that Tunisia's business environment has deteriorated since 2010 because of increasing business costs driven by widespread corruption, onerous labor regulations, policy uncertainties, fragile property rights (especially for land), costly tax rates and tax administration, and political instability.³⁴ By working on a firm-level basis, USAID has validated many of the structural barriers to private enterprise growth identified in the GOT's

³⁴ The Doing Business score sheds light on how easy or difficult it is for a local entrepreneur to open and run a small to medium-size business when complying with relevant regulations. World Bank, "Doing Business 2017," October 2016. <http://www.doingbusiness.org/reports/global-reports/~media/WBG/DoingBusiness/documents/profiles/country/TUN.pdf>

proposed SDP. Benefiting from its direct access to firms and understanding their current constraints, USAID will complement its firm-based assistance by identifying structural constraints in the business enabling environment that restrict competition and limit firm growth. USAID will increase its engagement with the GOT, the private sector, and other stakeholders to develop workable solutions by providing targeted technical assistance to overcome such business expansion constraints.

USAID will also assess how its projects and activities can better engage private sector constituencies/advocacy groups and CSOs, potentially drawing on lessons learned from other countries to determine what approaches could be used to more effectively engage these groups in the policy process. It will be critical for USAID to understand to what extent engaging these groups can improve policy outcomes and economic governance. In addition, USAID will seek to understand the incentives that need to be in place for Tunisian firms to expand along the value chain (horizontally and vertically). A critical learning question will center on the question of how USAID assistance can be used to help Tunisia identify and promote the policy and regulatory reforms that support these incentives. To support USAID's cross-cutting objective of geographic integration, USAID will extend this analysis to the factors that enable and constrain business at the sub-national level, including in the interior of Tunisia.

Finally, USAID will continue to support ongoing Tunisian efforts to improve the country's tax system, an effort that also links with IR 1.3 and objectives under DO2 to improve accountable governance. The simplification of hundreds of tax, customs, and business formalities since the revolution is already starting to reduce the administrative burden faced by the private sector, while also improving government efficiency.³⁵

IR 1.2: Workforce Skills Better Matched to Market Needs

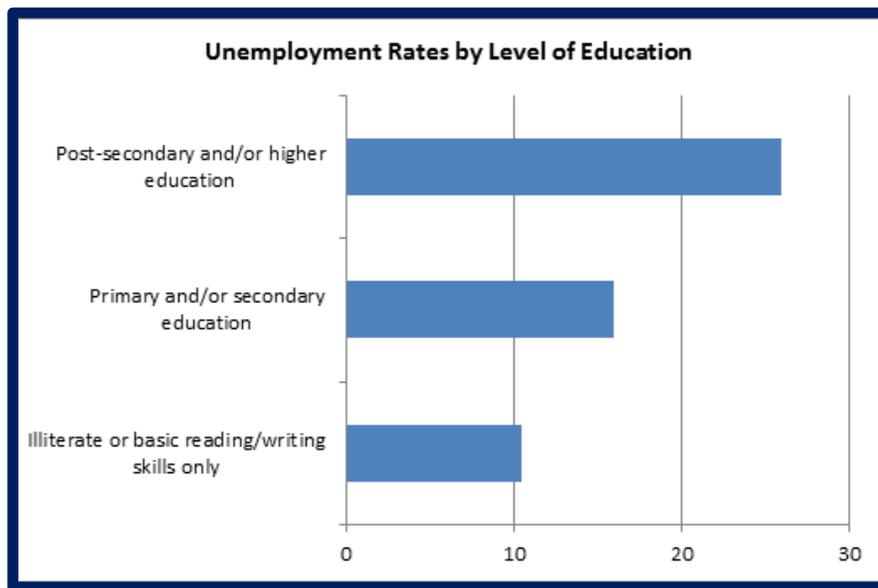
A secondary cause of Tunisia's high unemployment is the mismatch between educational priorities and what businesses actually need from skilled workers. In fact, advanced education is one of the strongest predictors of a worker being "mismatched" – Tunisian university graduates are far more likely to be unemployed than those with only limited education, and private sector job skill needs rarely match up with educational attainment. Public systems to match workers with appropriate jobs have had limited success. The mismatch of workers and jobs is significantly worse in western and southern Tunisia, where limited opportunities for high-skilled employment provide few chances for workers with advanced degrees to use their skills. Tunisia also faces looming bottlenecks due to the negative effects of major education reforms introduced in 1994. The generation now coming out of the education system is less employable, and the number of these graduates has increased dramatically.

³⁵ IMF, "Letter of Intent and Memorandum of Economic Financial Policies from the Government of Tunisia," May 2, 2016.

Under IR 1.2, USAID will initially focus on addressing Tunisia’s skills mismatch challenges by connecting workforce matching efforts to private enterprises with established hiring needs. This will be synchronized with the GOT efforts to track and coordinate international partners’ workforce development and job matching assistance, including the GOT’s FORSATI program. This program endeavors to align efforts of numerous partners and programs, including those which provide job seekers with personalized support to facilitate entry into paid employment or self-employment.

Most developing countries with scarcities in their workforce show economic returns on investment in education of 10 percent or higher.³⁶ In Tunisia, however, the average economic return to another year of schooling (correcting for different levels of work experience) is currently estimated as only 6.9 percent, based on the most recent Economic Research Forum household survey.³⁷ This indicates that in the current environment of slow job growth, the private sector does not place a high market value on higher levels of schooling due to the surplus of educated Tunisians.

Household survey data verify that unemployment is even more common among those with higher levels of education, another indication that Tunisia’s public sector and constrained private sector no longer offer sufficient skilled work opportunities for job-seekers.



Source: Economic Research Forum, “Labor Market Dynamics and Youth,” April 2016.

As shown above, Tunisians with advanced degrees face much higher unemployment rates

³⁶ See ERF, “Returns to Education in Arab Countries,” April 2016; and Montenegro and Patrinos, September 2014.

³⁷ Ibid.

because the creation of high-skill jobs has not kept pace with the arrival of educated Tunisians into the workforce. On the other hand, there is a relative scarcity of Tunisians willing to work in unskilled labor. Rates of return on education for women are even lower than for men because of an oversupply of educated females relative to the level of economic activity in Tunisia. Another way to think of this is that women are not rewarded economically for the additional years of schooling that they, on average, receive over men. Due to the dependence on the public sector for employment by highly-educated Tunisian women choosing to work, one would expect that the returns on their education (in terms of employment earnings) would continue to decline until Tunisia's economy improves or women are discouraged from higher education without commensurate employment opportunities.

Under the current conditions (average 2012 through 2016) of 60,000 -70,000 net new jobs being added each year, the mismatch of skills presented by job-seekers versus the private enterprises with job openings is less significant than the main unemployment barrier – weak firm growth and low demand-induced incentives to hire. The key indicator that a more-than-ample talent pool of potential workers exists for this current slow rate of job creation is that only five percent of all listed vacancies take longer than three months to fill. Vacancies have reportedly been long and problematic only in a few emerging and rapidly-evolving sectors, such as electromechanical engineering, computer science, and e-marketing. Business surveys also show that the majority of enterprises - including large firms - invest very little in staff training, which may indicate that firms can find the skills they need or that they anticipate difficulties in recouping the benefits of the training.³⁸

As projected job-creation levels top 100,000 per year matching workforce skills to private sector needs will become more critical for sustained job growth and to help shift workers to new, higher-productivity economic sectors. As IR 1.2's importance increases over time as job creation accelerates, and given that this is a relatively new entry point for USAID in Tunisia, further analysis is required to determine which sub-IRs should be included under IR 1.2. One of the learning questions associated with this IR is the extent to which improving the communication of firm needs to educational institutions and the public contributes to improved labor market outcomes.

Under IR 1.2, USAID will work with training institutions, career development centers (CDCs), workers and existing labor-matching systems to strengthen the demand-driven links between Tunisia's education system, training institutions, and its private sector (including associations and chambers of commerce). Most importantly, USAID will continue to rely on the articulated needs of existing private enterprises - which in the end are responsible for hiring - to maximize job placement efforts and future training priorities. USAID will supplement its firm-based approach to job creation with support for entrepreneurship and workforce development targeting the needs of underserved regions of Tunisia where employment opportunities are scarcest.

³⁸ Agence Nationale de l'Emploi et du Travail Indépendant (ANETI), as cited in "Youth Employment and Economic Transition in Tunisia," Brookings Working Paper, January 2013.

Entrepreneurs and youth will receive training, job coaching, counseling, and placement to increase their employability or start and grow their own businesses.

USAID's support will be coordinated with the GOT's FORSATI program, led by the Ministry of Vocational Training and Employment. USAID has been supporting FORSATI through BRCP by building capacity in all 32 of Tunisia's Career Development Centers, recruiting top firms to participate in job fairs, and in some cases, connecting individuals who are on GOT's unemployment rolls with job openings. BRCP also partners with the Tounes Ta3mal project co-run by Microsoft and Silatech, which provides soft-skills training and a communication platform from which youth can learn about employment opportunities.³⁹

As Tunisia's decentralization process moves forward, USAID may also examine the linkages with the public sector workforce needs at the local level, where new and upgraded skills will be needed as Tunisia's interior municipalities assume additional administrative responsibilities. These efforts will have an added focus on identifying and working with populations that currently experience higher-than-average rates of under- or unemployment, such as women, youth, or those living in Tunisia's geographically less integrated regions. Given that the decentralization process is still in a nascent stage and more analysis and dialogue with the GOT and international partners is needed, IR 1.2 will be updated at a later date to include specific sub-IR(s) outlining USAID's comparative advantage in this area.

IR 1.3: Accountable Public Financial Management Systems Enhanced

Tunisia's macro-fiscal framework for economic growth, though stable for the moment, is unsustainable and has the potential to impede the robust economic growth necessary to advance Tunisia's socio-economic transformation. IR 1.3 will focus on PFM to promote fiscal stability, reinforce streamlined business procedures (Sub-IR 1.1.1), support accountable and transparent governance (IR 2.1), and foster an overall macroeconomic enabling environment favorable to private sector growth and prosperity.

Tunisia's fiscal deficit increased from 3.2 percent of GDP in 2011 to almost six percent in 2015, due to lower tax revenues, relatively high subsidy expenditures, and periodic and unsustainable increases in the public sector wage bill (now over 13 percent of GDP, among the highest cost burden in the world).⁴⁰ Large losses in many state enterprises, potential further recapitalization needs in the banking sector, and unfunded pension and social safety net mandates are additional large contingent liabilities that are difficult to value. These fiscal pressures come at a terrible social cost. For example, public spending on health has been cut to 1.7 percent of GDP, down from 2.2 percent in the late 1990s, and the number of hospital beds per capita is lower than in many other middle income countries. Public sector capital spending (typically allocated for

³⁹ <http://tounes.ta3mal.com/fr/Pages/Home.aspx>

⁴⁰ IMF, "Tunisia: Request for Extended Arrangement under the Extended Fund Facility," June 2, 2016.

projects, infrastructure, and other investments intended for local benefit) has also failed to keep pace, suffering major cuts in the face of diminished public funds.

Tunisia's tax effort (tax collection plus social security payments as a share of GDP) was 31.3 percent in 2014, on par with other middle income countries.⁴¹ Although personal income tax and payroll tax rates are considered to be high, overall revenue collection is modest compared to other middle income countries, suggesting high prevalence of informality and tax avoidance (i.e. leakage).⁴² On the other hand, social security payments are relatively high (8.6 percent of GDP) and there are signs that the retirement systems are dangerously underfunded.⁴³ Public finances remain vulnerable to a very narrow tax base - 80 percent of tax revenues come from only 1 percent of companies. This situation is reinforced by a wide range of tax incentives for offshore firms, value-added tax exemptions, and unequal treatment between wage and capital income.

IR 1.3 supports DO 1 insofar as macro-fiscal stability is needed to give the private sector the confidence to make risky, longer-term investments. Unless something is done to address Tunisia's mounting fiscal imbalances, the robust job creation envisioned by the GOT and DO 1 will be unachievable. IR 1.3 will support revenue collection and other areas of tax collection while improving transparency and accountability for public resources, with an eye toward reducing opportunities for losses and corruption as well as ensuring more equitable distribution of resources and social safety net expenditures.⁴⁴

IR 1.3 will also support budget and expenditure execution and could also support budget planning and expenditure management in areas such as addressing the solvency of Tunisia's retirement systems. Related areas, such as trade facilitation through customs modernization, may be supported, provided there is a sustained demonstration of strong political will among government and private sector stakeholders. USAID's existing regionally-funded activities, including partnership with INTOSAI and ARABOSAI to implement international audit standards at the Courts des Comptes, will inform the design of new activities under IR 1.3.

Additionally, USAID will help the GOT and other stakeholders continue positive momentum for improving the transparency and accountability of PFM systems (linking results to IR 2.1). The GOT's recent publishing of a "citizen's budget," in addition to other initiatives to share information with stakeholders, demonstrate the GOT's commitment to greater transparency and fighting corruption. Tunisia has been an active participant in the Open Government Partnership (OGP), a multilateral initiative to secure concrete commitments from governments to promote transparency, empower citizens, fight corruption, and harness new technologies to strengthen

⁴¹ OECD, "Revenue Statistics in Africa, 1990-2014," March 2016.

⁴² IMF, "Staff Report for the 2015 Article IV Consultation, Sixth Review Under the Stand-By Arrangement, and Request for Re-phasing," September 16, 2015.

⁴³ IMF, "Tunisia: Request for Extended Arrangement under the Extended Fund Facility," June 2, 2016.

⁴⁴ World Bank, "Political Connections and Tariff Evasion: Evidence from Tunisia." June 2015.

governance, since 2014.⁴⁵ Tunisia also meets the Department of State's minimum standards for fiscal transparency.⁴⁶ Both the OGP and the Department of State cite on-going Tunisian priorities as vital to improving the management of the country's public resources in a manner that is fair, efficient, and transparent.

USAID enhancement of accountable PFM systems will also support fiscal decentralization. Tunisia's new constitution envisions a more decentralized state, with local governments empowered to manage their own budgets to meet the needs of their constituents. IR 1.3 will support fiscal decentralization through support to national PFM systems. Efforts at this level will be complemented by assistance to local government entities carried out under IR 2.1. Assistance in this area will benefit from extensive consultation with the GOT at both the national and local levels, as well as with the World Bank and other international partners. USAID will also participate in the G7+EU-Tunisia Partners working group on Regional Development and Decentralization to promote strong collaboration with other efforts, such as the World Bank's Urban Development and Local Governance project.⁴⁷

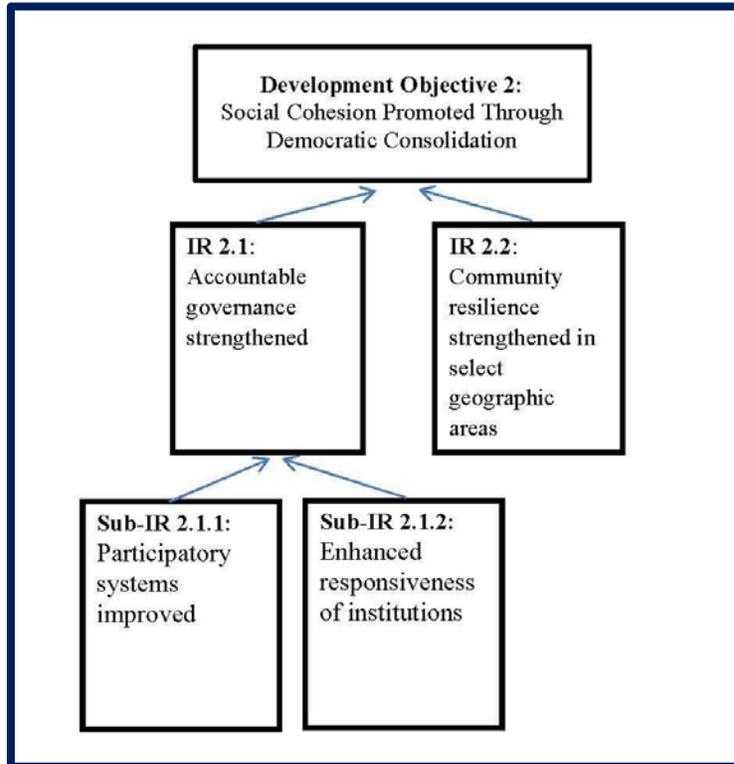
IR 1.3 will be updated to include specific sub-IRs once additional analysis, planning, and consultation has been conducted to further refine areas of programming.

⁴⁵ <http://www.opengovpartnership.org/country/tunisia>.

⁴⁶ <http://www.state.gov/e/eb/ifa/oma/fiscaltransparency/260301.htm>.

⁴⁷ <http://documents.worldbank.org/curated/en/docsearch/projects/P130637>.

Development Objective 2: Social Cohesion Promoted Through Democratic Consolidation



Development Hypothesis

DO 2 is built on the premise that effective governance systems foster constructive engagement through collaboration between state institutions and citizens, and that a cohesive society is a necessary foundation for democratization. This DO, therefore, will support the development of transparent and accountable governance systems, as well as foster social cohesion and community resilience in disaffected and/or marginalized communities.

Background

DO 2 draws on the OECD's definition of social cohesion, namely the belief that "a cohesive society works toward the wellbeing of all its members, fights exclusion and marginalization, creates a sense of belonging, promotes trust, and offers its members the opportunity of upward

mobility.”⁴⁸ Within the context of this CDCS, the term “democratic consolidation” reflects GOT priorities articulated in its requests to the G7, the SDP, and the recently signed Carthage Agreement. In these documents, democratic consolidation assumes a definition of constitutional realization, which in turn entails bridging the regional development gap, broadening social inclusion, and embracing principles of good governance.

DO 2 recognizes the importance of this broad, GOT-led democratic consolidation to Tunisia’s overall socio-economic transformation. Tunisia made significant progress through the adoption of its 2014 Constitution and successful parliamentary and presidential elections. Additional support can help anchor and improve the performance of these and other institutions to meet Tunisian expectations.⁴⁹ This DO reflects the fact that Tunisia needs effective as well as inclusive governing systems to create support for enduring democratic change.

Existing research on social cohesion reflects its strong relationship with democratic consolidation.⁵⁰ Lessons learned from Tunisia’s neighbors suggest that governance and social systems, in the absence of social cohesion, can lead to fragility, instability and conflict. Conversely, social cohesion in the absence of effective, inclusive democratic governance systems creates tension between citizens and government. Mutually-reinforcing progress on democratic governance and social cohesion is critical to help shift Tunisia’s overall political and socio-cultural environment, and can help mitigate the potential for conflict between state and society and pave the way for Tunisia’s continued stability and prosperity.

In line with these definitions, DO 2 is supported by two approaches: 1) IR 2.1 building accountable governance systems and 2) IR 2.2 strengthening community resilience, including by addressing drivers of VE. Both IRs promote the participation and inclusion of marginalized groups, with marginalized persons broadly defined as any person who has been excluded from political, economic, and social opportunities. For example, up until recently it was estimated that one-third of Tunisians lived outside the boundaries of municipal jurisdiction and as a result are excluded from municipal services. A recent decree from the GOT has sought to address this issue through the creation of new municipalities, but many issues pertaining to inclusion of these populations remain.

As indicated in the cross-cutting Results Framework arrow, this strategy will ensure programming is inclusive by ensuring a particular emphasis on women, youth, gender and sexual minorities, persons with disabilities, and people living in historically marginalized areas, in order to advance social cohesion and democratic consolidation.

⁴⁸ OECD, “Perspectives on Global Development 2012: Social Cohesion in a Shifting World,” December 14, 2011. <http://www.oecd.org/dev/inclusivesocietiesanddevelopment/social-cohesion.htm>.

⁴⁹ International Republican Institute Center for Insights in Survey Research, “Public Opinion Survey of Tunisians: May 24-30, 2016,” May 2016.

http://www.iri.org/sites/default/files/wysiwyg/iri_tunisia_survey_may_2016_public.pdf

⁵⁰ <http://www.idea.int/resources/analysis/loader.cfm?csmodule=security/getfile&pageid=38089>

Critical Assumptions and Risks

DO 2's logical framework takes into account a number of critical assumptions and risks, which are reflected in the DO structure and thinking. These include:

Critical Assumptions

- The GOT is committed to furthering democratic consolidation by promoting transparent and fair local elections, making progress on its constitutionally-driven legislative agenda, building inclusive, responsive institutions, and tackling corruption and cronyism.
- There is general consensus and political will to follow through on the Constitution's commitment to decentralization. This includes supporting appropriately devolved and empowered local governments, with autonomy and resources for executing their mandates within a legal framework that affords transparency, accountability, and full participation by citizens.
- There is no single profile in Tunisia that lends itself toward recruitment to violent extremism.
- Drivers of violence and conflict can be addressed at the community level.
- The security situation will be stable enough to implement programming.

Risks

- Efforts to decentralize or otherwise strengthen governance could be undermined or significantly hindered by obstructive actors.
- Significant deterioration in the security environment may lead to over-prioritization of security over democratic consolidation and human rights. This dynamic could be compounded by high profile violence, ongoing domestic security incidents, or the further deterioration of conditions in the region.
- Similarly, if economic growth and job creation do not quickly increase, continued unemployment and poverty could lead to increasingly violent protests and disruptive actions.
- Insufficient attention to historically marginalized regions could undermine both democratic consolidation and social cohesion. At the same time, an inequitable emphasis on marginalized populations can fan tensions and undermine efforts.

Cross-Cutting Themes

Gender

DO 2 will emphasize gender equality through its support for accountable governance. Women and sexual and gender minority communities face obstacles related to access to justice and legal protection, as well as political, social, and economic participation. Activities under IR 2.1 programming will engage women and gender and sexual minority persons (where feasible given

specific safety concerns) to promote more robust participation in public life, including through participatory governance systems. USAID will promote gender champions to raise awareness about gender issues. Complementary to this, USAID will explore the learning question of whether having women in leadership roles affects citizens' perception of government effectiveness.

Community resilience activities under IR 2.2 will address community-identified drivers and grievances, which may include promoting gender equality and women's empowerment. For example, activities will build off of existing research that explores the gendered dynamics around VE, and will include targeted components to address this nexus, as well as to examine how perceptions around male norms influence VE. Past research by USAID and others has shown that GBV is used by VEOs to further destabilize communities. To better understand this dynamic, USAID will explore learning questions around the connection between GBV and the overall fragility of a state, as well as the role that gender norms play in driving individuals to violence.

Youth

Participation in local governmental and non-governmental organizations will provide youth with opportunities to develop leadership skills necessary to carry their transition forward. Activities will seek to engage youth from all socioeconomic backgrounds and education levels. DO 2 will also coordinate with DO 1 to advance youth development and engagement where appropriate and feasible. DO 2 programming, particularly IR 2.2, will rely on positive youth development principles, including skill-building, participation, resilience, innovation, and norms and expectations, among others.⁵¹ As outlined in the MEL plan, USAID will seek to identify the key drivers of youth perceptions of disenfranchisement, and to explore to what extent improving communication about the role of government in creating jobs, particularly for youth in the interior, can lead to improved youth perceptions of state legitimacy and democratic change. Additionally, USAID will explore at what point in their lives individuals are most vulnerable to extremist messaging, and whether there is a link between childhood exposure to violence and propensity to violent behavior. This will enable USAID to tailor community resilience programming to different age groups to increase its effectiveness.

Geographic Integration

DO 2 will address issues of geographic integration as described elsewhere in this CDCS. Activities under DO 2 will strengthen coordination among various levels of government, in order to ensure fair and equal opportunities for all Tunisians through increased opportunities for participation in local government processes, and corresponding improved service delivery at the

⁵¹ <http://youth.gov/youth-topics/positive-youth-development>

local level. Similarly, DO 2 will strengthen coordination between governmental and non-governmental institutions with the same goal.

Under the CDCS MEL plan, USAID will assess the opportunities for political representation for rural communities outside of the formal political participation system, and will explore how individuals in these communities perceive the legitimacy of formal political participation relative to traditional representation. USAID will also assess the relationship between service delivery in the interior and perceptions of government legitimacy and accountability. USAID will monitor the extent to which USAID programming mitigates, exacerbates, or has a neutral influence on regional disparities, including attention to avoiding creating unmet expectations.

Programming under IR 2.2 will seek to locate activities near each other as appropriate with interventions under IR 2.1, 1.1, and/or 1.2., particularly to build community resilience in the interior. At a regional level, USAID will continue to support Tunisian roles in agricultural networks, water governance, and regional organizations.

IR 2.1: Accountable Governance Strengthened

Tunisia continues to struggle with a lack of accountable and inclusive governance. Mechanisms to ensure sufficient public accountability of government institutions are missing or inadequate. Similarly, opportunities for citizen participation in key government processes are largely absent, with budgeting and investment planning carried out at the central level while for the most part local governments lack the mandate, resources, skills, or incentives to effectively serve and advocate on behalf of their constituents. This status quo continues to fuel development disparities between interior and coastal regions and the marginalization of vulnerable populations, undermining the perception of the government as a fair, effective and legitimate actor. For example, according to a recent public opinion survey, only one-third of Tunisians feel like they know what the government is currently working on and what its priorities are, while less than a quarter reported that ministries are doing enough to address their needs.⁵²

Tunisia's constitution lays the framework for accountability and inclusion, under which legislation is being revised and developed, and institutions are being created or restructured with particular regard to municipal elections and decentralization. These initiatives reflect ongoing GOT efforts to rebuild Tunisia's governance and administrative systems. To strengthen accountability and transparency, it will be important to support two-way engagement between citizens and government to increase public confidence and improve service provision to effectively meet expectations. This will include working with Tunisia's civil society to build capacity and create conduits for citizen advocacy throughout Tunisia. To support this two-way engagement, USAID will, through the CDCS MEL plan, assess whether programming that

⁵² International Republican Institute Center for Insights in Survey Research, "Public Opinion Survey of Tunisians: May 24-30, 2016," May 2016.
http://www.iri.org/sites/default/files/wysiwyg/iri_tunisia_survey_may_2016_public.pdf

strengthens horizontal linkages (i.e. connections between municipalities) and vertical linkages (i.e. connections between municipalities and the central government) can play a role in mitigating the common negative effects of decentralization, such as increases in corruption.

In line with USAID's 2013 Democracy, Rights, and Governance Strategy, IR 2.1 will undertake a multifaceted approach to supporting Tunisia's emerging democratic governance and administrative structures, particularly at the local level, including providing support for citizen engagement in this process.⁵³ This approach has the potential to demonstrate positive impacts of the transition within the timeframe of this CDCS, and to establish positively reinforcing processes for accountability and inclusion between citizen and state that will last long after the CDCS has concluded. This strengthened relationship will contribute to enhanced legitimacy of the political system. Illustrative programming under IR 2.1 could include:

- Supporting political processes through assistance to local elections monitoring and media;
- Supporting the anchoring and institutional development of newly-elected and/or newly-created local GOT entities, particularly municipalities;
- Promoting the adoption of participatory government processes for planning, budgeting, and accountability with a focus on the local level;
- Strengthening civil society's capacity to engage the GOT, including aligning with the Presidential Stand with Civil Society Initiative, which seeks to strengthen civil society globally, and by drawing on lessons learned from the existing, regionally-funded regional Innovative Solutions for Strengthening Civil Society (ISSC) activity, and;
- Strengthening connections between Tunisia's local governments and central ministries to ensure that key service generating infrastructure and service delivery processes reflect local needs.

This IR will address ongoing deficiencies related to inclusion and accountability that impact marginalized groups, while advancing the GOT's regional development and decentralization agendas. In addition, supporting decentralization by improving governance mechanisms and capacity may indirectly address cross-cutting issues like climate change, as local level entities are increasingly able to manage natural resources and address climate change-related issues.

Sub-IR 2.1.1

Under sub-IR 2.1.1, "Participatory Systems Improved," programming will support more accountable and inclusive governance in Tunisia at the national and subnational levels by enhancing the ability of citizens to both participate in governance decisions and processes as well

⁵³ The DRG strategy notes that accountable governance assistance interventions range from electoral assistance to enable citizens to exercise their right to select and replace leaders, civil society and media to provide oversight; institutions and systems that enable checks and balances among branches of government; and institutions delivering on the office mandates to fulfill public trust and responsive governance. <https://www.usaid.gov/democracy-human-rights-and-governance-strategy>.

as to hold their representatives accountable through regular oversight, dialogue, and elections. This will include partnering with Tunisian civil society as it works to frame its ongoing relationship with the GOT ahead of local elections with regard to ongoing administrative, financial, and political decentralization. Supporting participatory systems will help broaden inclusion and participation and will help enhance the legitimacy of Tunisia's political systems.

Programming under this sub-IR will complement ongoing efforts to support participation in future electoral events through local elections monitoring, increased civic awareness, and elections media coverage. This integrated effort will aim to address deteriorating confidence in political and governing processes, as evidenced by declining voter turnout, particularly in the interior. Initially, this programming will focus on local elections leading up to parliamentary and presidential elections in 2019. This assistance will be coordinated with other USG actors and international partners, as well as with the GOT.

Programming may include support to increase citizen participation in planning, budgeting, and accountability processes at the municipal level, while strengthening mechanisms for coordination and advocacy between local government and civil society with central ministries. Other initiatives may facilitate meaningful citizen participation in governance processes and decision-making at the local, provincial, and national levels. Such programming will take an inclusive and gender equality-based approach and will ensure maximum participation from marginalized groups.

Sub IR 2.1.2

Under sub-IR 2.1.2, "Enhanced responsiveness of institutions," USAID will work with local governments and key service-delivering ministries to better represent and respond to the needs of Tunisian citizens, especially women and youth. Activities will be driven by local demand, such as those articulated under sub-IR 2.1.1 wherever possible. Illustrative activities may include:

- Partnering with GOT institutions at the local level to open select government processes, such as participatory planning and budgeting, to civil society and citizen (in particular, youth and women) input;
- Working with the GOT and civil society to identify and pursue service delivery initiatives that demonstrate a commitment to inclusion and accountability to its citizens, including: 1) addressing municipal-level issues, such as improved municipal roadways, solid waste collection, and street lighting; and 2) addressing national-level issues, such as supporting key service delivering ministries such as Vocational Education, Social Affairs, or Environment to provide equitable services across Tunisia.
- Partnering with the GOT to enhance its strategic communications and citizen outreach across the country around issues related to IR 2.1 programming, in close coordination with other USG-led efforts at the national level; and,
- Working with parties and candidates ahead of pending local elections to strengthen their understanding of key roles and responsibilities as first-time elected officials and to concurrently strengthen their capacity to engage with and respond to their constituents.

Sub-IR 2.1.2 will use locally-driven programming to enhance the responsiveness of institutions and increase opportunities for citizen engagement, with the goal of increasing inclusion, transparency, and mutual accountability. Programming will take an inclusive and gender equality-based approach and will ensure maximum participation from marginalized groups.

IR 2.2: Community Resilience Strengthened in Select Geographic Locations

Resilience is the ability of people to absorb and recover from shocks and stresses while adapting and transforming their communities and livelihoods to withstand future events. For the purposes of this IR, resilience will be measured based on improvements in specific targets that represent the strengthening of government and non-governmental institutions and systems that provide societal resilience. While many of the interventions identified in the CDCS contribute indirectly to resilience, IR 2.2 will promote resilience at the community level, with the goal of addressing drivers of VE, building community engagement and identity, and strengthening social cohesion between marginalized populations and the rest of Tunisia. Community resilience efforts will be geographically targeted and will likely align with interventions under IRs 2.1, 1.1, 1.2, and/or 1.3. USAID will also explore learning questions related to the relationship between community resilience and economic opportunity and inclusion, including the degree to which jobs can serve as a vector to address issues of exclusion and identity.

For the purposes of IR 2.2, VE will be defined as “advocating, engaging in, preparing, or otherwise supporting ideologically motivated or justified violence to further social, economic and political objectives.”⁵⁴ IR 2.2 will build resilience to and prevent the spread of VE by addressing community-level drivers. Push factors at the national level include perceptions of marginalization and exclusion, particularly a lack of political inclusion of youth; unmet expectations, particularly as it relates to employment and economic opportunity; and perceptions of government injustice, particularly corruption. The primary pull factors identified include a desire for identity and purpose; material and nonmaterial rewards; and social pressure for recruitment. Drivers vary based on geographic location. For instance, in peri-urban areas of Tunis, relative deprivation and exclusion compared to the wealth in greater Tunis is a driver of VE. The risk analysis also noted that investments to mitigate VE should be cross-sectoral, recognizing the complex and highly-localized nature of VE drivers. IR 2.2 will explore a wide range of programmatic responses, including those focused on the personal or individual level and those which address community- and sub-national level issues.

IR 2.2 recognizes that building resilience to VE requires a “whole-of-society” effort that encompasses the most vulnerable people (such as youth), their families, community leaders, CSOs, the private sector, and faith-based organizations, in addition to the GOT at the national and local levels. USAID activities will bring a diverse and representative range of community

⁵⁴ USAID, “The Development Response to Violent Extremism and Insurgency: Putting Principles into Practice,” September 2011. https://www.usaid.gov/sites/default/files/documents/1870/VEI_Policy_Final.pdf

members, including women, youth, gender and sexual minorities, and persons with disabilities, together based on common interests, and will promote local ownership and leadership around issues related to social exclusion, perceptions of marginalization, and community needs. Programming will also consider how different genders and demographic groups experience and are affected by and contribute to VE. For example, activities will explore how the vulnerability of women and youth is impacted by barriers such as a lack of equal access to employment, equal gender treatment under law, and lack of gender and youth equality in political leadership. This approach will build on the recognition that men's and women's perceptions of each other's roles matter. Youth-focused engagement will be a significant component of enhancing community-level resilience. These interventions will be underpinned by best practices embedded in the positive youth development framework.⁵⁵

IR 2.2 will draw upon best practices showing that responses led by citizens, rather than security forces, are often the most effective at reducing the susceptibility of and building resiliencies within vulnerable populations. The activities associated with this IR may include interventions such as: community dialogue and engagement; youth engagement; working with parents and other peer groups; media professionalization; improving inclusive governance mechanisms; youth employment and poverty reduction; and cultural activities. In developing these activities, USAID will consider how community mobilization contributes to building the capacity of communities to mitigate drivers of violence, conflict, and fragility, and how the linkages between individual- and community-level violence can be addressed through USAID activities.

IR 2.2 programming will be grounded in USAID's policy on The Development Response to Violent Extremism and Insurgency.⁵⁶ Activities will build on USAID OTI's past experience in Tunisia and will be coordinated and informed by other USG and international partner programming, including ongoing research by Search for Common Ground funded by the U.S. Department of State. Activities will also support the GOT's National Strategy Against Extremism and Terrorism, which outlines four pillars: prevention, protection, prosecution and response. IR 2.2 will focus on "prevention." In addition, USAID will continue to participate in GOT and international partner-led working groups around issues of resilience and CVE in order to ensure coordination and complementarity.

IR 2.2 will be updated to include specific sub-IRs once additional analysis, planning, and consultation has been conducted to further refine areas of programming, in large part during the project design process. Based on current knowledge, however, illustrative programming may include:

- Working with school teachers, youth centers, and community leaders to develop mentoring and support programs for at-risk youth, whether in-school or out-of-school;

⁵⁵ <http://youth.gov/youth-topics/positive-youth-development>

⁵⁶ USAID, "The Development Response to Violent Extremism and Insurgency: Putting Principles into Practice," September 2011. https://www.usaid.gov/sites/default/files/documents/1870/VEI_Policy_Final.pdf

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- Planning and launching mechanisms to prevent individuals from joining VEOs and mitigating local pull factors, such as supporting an online forum for family members to get advice about better supporting relatives who feel marginalized in their communities;
- Mentoring local governments, businesses, and civil society organizations to launch processes inclusive to youth, such as youth-supported audits of government offices or job matching support;
- Organizational capacity building for civil society organizations working on issues related to youth engagement, community resilience, and CVE;
- Developing an advisory committee to send out email newsletters and activity updates to different groups;
- Building the capacity of local researchers to analyze VE drivers, as well as monitor and evaluate programming;
- Training and coaching youth to convene, lead, and manage dialogues and engagement activities; and
- Teaching and mentoring local government officials on inclusive consultative processes.

Monitoring, Evaluation, and Learning

USAID will take a deliberate and systematic approach to integrating monitoring, evaluation, and learning (MEL) into all programming over the life of the CDCS to facilitate strategic learning and adaptive management. Learning and adapting are integral to effective implementation of the strategy in Tunisia's complex and fluid operating environment. USAID's MEL approach will include:

- Regular monitoring to ensure that programming is relevant to conditions on-the-ground and that projects and activities support development objectives;
- Use of evaluations and other analytical work (e.g., research, assessments, special studies, use of USAID's applied Political Economy Analysis or PEA framework, etc.) to address knowledge gaps, guide strategic decision-making, and strengthen the technical evidence base informing programming;
- Analysis of monitoring and evaluation data to assess assumptions and risks and to test and refine development hypotheses;
- Coordination with stakeholders, including the G7+EU-Tunisia Partners Group, to promote sharing of new knowledge across sectors and programs; and
- Annual portfolio reviews, to examine CDCS progress and lessons learned and to document progress, guide strategic direction, and inform course adjustments.

USAID's proposed CDCS MEL approach is discussed in greater detail in the remainder of this section.

Monitoring

Throughout CDCS implementation, USAID will integrate a robust monitoring approach. USAID's monitoring approach will include both performance monitoring and context monitoring, which are described as follows:

- Performance monitoring generally involves the use of indicators to assess progress toward achieving results. Indicators may be quantitative or qualitative in nature. In cases in which results are emergent or cause-and-effect relationships unclear, non-indicator based approaches (e.g., complexity-aware monitoring) that capture a broader array of potential outcomes may be appropriate.
- Context monitoring complements performance monitoring and involves the systematic collection of information about conditions and external factors outside the control of USAID that may, directly or indirectly, affect strategy implementation and performance. Context monitoring will be used to monitor key CDCS assumptions and risks. USAID will also monitor trends in the types of outcomes (e.g., employment) that we seek to influence through our programming.

Indicators will be further refined during development of the Performance Management Plan and through the project design process.

USAID will ensure that its monitoring approaches are guided by gender equality and women's empowerment principles so that women's and men's situations and experiences are adequately captured. Standard and custom gender indicators and key issues will be used to track and report progress in closing gender gaps through USAID's interventions. Best practices and lessons learned will be shared through gender-related success stories and through evaluations and other analytical products.

Performance Monitoring

In implementing its performance monitoring approach, USAID is guided by USAID's Automated Directives System (ADS) 201. Given the strategy's focus on inclusivity and cross-cutting emphasis on women, youth, and geographic integration, USAID will examine the impact of programming on these critical sub-groups over the course of the strategy. Sex-disaggregated data will be collected for all person-level indicators. As applicable and feasible, USAID programming will also incorporate indicator disaggregation by age of beneficiaries, with a particular focus on youth and area of geographic area of implementation. Disaggregated data will be important to assessing the inclusivity of USAID programming and any barriers or unintended consequences for marginalized populations. The collection of geo-disaggregated data will facilitate more detailed analysis of geographic (regional) patterns of development.

At the same time, USAID faces the challenge that traditional indicators are unlikely to sufficiently capture the complexity of some CDCS results, such as "social cohesion" and "community resilience." As such, USAID intends to complement traditional monitoring approaches with emerging approaches in monitoring. These may also be used in the early stages of activities to refine development hypotheses or performance measurements. USAID will also build on existing indicators and measures of social cohesion and resilience developed by others.

In accordance with the USAID Local Systems Framework, during project and activity design all projects and activities will consider how to measure local ownership and sustainability in the Tunisian context, including benchmarks to assess whether key results are on track to being sustained post-intervention.

Context Monitoring

USAID will monitor key assumptions, risks, and constraints that are outside of its control but influence its ability to successfully implement the CDCS. Both projects and all activities will include in their respective MEL plans approaches to monitor the contextual factors that bear on the successful realization of intended results. In addition, portfolio reviews and other stocktaking events will include relevant context data to help USAID to interpret the results of its programming.

Evaluation

Evaluation planning and implementation will follow the guidance in the USAID Evaluation Policy and ADS 201. Over the life of the CDCS, USAID plans the following evaluations:

- Performance evaluations for select activities under DO 1 and DO 2 to assess the contributions of activities and intervention approaches to advancing the CDCS objectives, inform understanding of lessons learned, make course corrections, and inform future programming. Learning and management decision-making needs will help to inform the timing of specific evaluations;
- Developmental⁵⁷ or formative evaluation of USAID’s community resilience programming under IR 2.2 to assist in developing and refining a contextually-specific theory of change, identifying and developing appropriate performance measurements, and promote rapid feedback to ensure that evidence and lessons learned are integrated into the activity implementation approach;
- Whole-of-project evaluation under DO 1 to better understand how USAID’s economic growth activities in Tunisia, working in concert with one another, contribute to the project purpose of increased inclusive private sector employment and advance the CDCS goal; and
- Evaluations in line with TAEF-related legislative requirements. Evaluations will examine the accountable implementation of TAEF investments and the effectiveness of TAEF investments in achieving the fund’s goals of private sector growth and employment creation, among other objectives.

Evaluations will be timed to influence decision-making and resource allocation and to make changes as needed. Evaluation plans will be documented in the Performance Monitoring Plan (PMP) and in respective project MEL plans. Post-evaluation, as appropriate, briefings will be held with the implementing partner(s), the GOT and other stakeholders, and other international partners to share evaluation findings. USAID will implement a post-evaluation action plan for each completed evaluation to ensure that evaluation findings and recommendations are actively considered in the implementation of ongoing and planned projects and activities.

Collaboration, Learning, and Adapting (CLA)

Strategic collaboration, learning, and adaptive management link together all components of the USAID program cycle. An intentional and systematic approach to CLA includes:

⁵⁷ “Developmental Evaluation (DE)” is an approach to evaluating innovative programs that are being implemented in complex, dynamic environments. An embedded evaluator supports data collection, adaptive management, and continuous learning processes. DE supports the implementer to actively review its theory of change and implementation approach to ensure that programming is responsiveness and relevant to conditions on the ground.

For Public Distribution

- Generating, capturing, sharing, analyzing, and applying information and knowledge, including performance monitoring data, findings from evaluations, analyses conducted by USAID or third parties, research, practice, and knowledge gained from experience;
- Understanding the theory of change behind programming, identifying potential gaps in technical knowledge, and developing plans to fill them;
- Engaging with key stakeholders, including local thought leaders, beneficiaries, host country partners, and other development actors to understand the country context, design projects and activities appropriately, and keep abreast of changes;
- Coordinating efforts within the USG and among partners and other development actors to increase synergies and sharing to extend the USAID's influence and impact beyond its funding;
- Pausing periodically to reflect on new learning and knowledge and adapting accordingly; and
- Ensuring that sufficient resources are mobilized to support these processes.

USAID will pursue a CLA approach that will help:

- Promote effective coordination and collaboration among USG agencies, partners, and stakeholders at both the regional and national levels in Tunisia;
- Strengthen the gender-sensitive evidence base on which decisions about development assistance are made, and ensure that experience and observations inform management and program decisions; and
- Facilitate the adaptation of activities to changing conditions and emerging learning about what works and what does not and for whom.

Strategic Collaboration

As discussed earlier, Tunisia's dynamic environment includes numerous multilateral organizations, bilateral agencies, and international financial institutions providing a range of assistance. The GOT's new G7+EU-Tunisia Partners Group is an important forum for international partner coordination and collaboration with the GOT. The U.S. Embassy, with USAID leadership, will facilitate the "Human Development and Social Inclusion" thematic working group, which will allow USAID to engage with a wide range of stakeholders on its DO 1 objectives. USAID will also engage as a participant in other G7+EU-Tunisia Partners sub-groups, such as the "Regional Development and Decentralization" working group around DO 2 objectives. In addition to the G7+EU-Tunisia Partners Group, USAID will continue to explore partnerships and joint initiatives with other international partners to avoid duplication and pursue synergies.

Over the life of the CDCS, USAID will engage a broad cross-section of stakeholders. Potential areas for strategic collaboration and dialogue related to DO 1 could include increasing inclusive private sector employment; increasing small business growth and hiring; public investment and debt; trade policy; foreign investment (particularly in concert with renewed IMF commitments and a plan of action on macroeconomic stability); and issues around transparency and

accountability. Potential areas for strategic collaboration and dialogue related to DO 2 could include convening citizens and community members around identifying and addressing drivers of violence and fragility in Tunisia; continued engagement in multi-partner discussions, such as the EU-U.S. Strategic Security Dialogue and working groups on community resilience and violence mitigation.

USAID will work with a representative range of citizens from across Tunisia. Consultations will include youth, women, men, members of the gender and sexual minority community, and individuals with disabilities from the interior, coastal, and peri-urban areas. Internal to USAID, close coordination between the DO 1 and DO 2 teams will be crucial to ensure that USAID is coordinated in its outreach efforts to other international partners and stakeholders and make sure that programming is not siloed. Given the cross-cutting nature of the CDCS and fundamental linkages between EG and DRG issues, USAID’s project design processes will take a “systems” approach to problem analysis. Projects will be designed in such a way to maximize strategic linkages, feedback loops, and learning between technical sectors.

Learning

“Learning” encompasses generating, capturing, sharing, analyzing, and applying information, data, and knowledge to strengthen the evidence underlying programming and inform iterative adjustments and decision-making. Learning activities contribute to building stronger feedback loops that inform adaptive management and enable changes in strategy, project design, and implementation in response to changing conditions and emergent opportunities.

Throughout CDCS implementation, USAID will identify critical knowledge gaps and needs to address through evaluations, use of monitoring data, assessments, or other means. USAID will generate new evidence and learning to fill knowledge gaps and apply and use data. USAID will share results and learning from CDCS implementation with local organizations, citizen groups, and other stakeholders.

Adaptive Management

Given the complexity of the Tunisian operating environment and the range of events that could unfold over the course of the CDCS, USAID will incorporate adaptive management and iterative and flexible learning as core principles in its implementation approach. Adaptive management draws upon systematic, iterative, and planned use of new knowledge and learning throughout the implementation of the strategy. This knowledge will be used both to inform course corrections, as well as to help USAID assess the layering, integration, and sequencing of activities optimal for achieving results in Tunisia’s complex and dynamic environment.

Activities will be flexibly designed and managed, adjusting as changes in the situation or in available opportunities warrant.

Assessing Progress

Over the course of the strategy, USAID will reflect on progress toward the CDCS objectives, re-validate the strategic approach, and use knowledge and learning to adapt accordingly. Some touch points, including portfolio reviews and CDCS mid-course stocktaking, will proceed on a pre-identified schedule while others, such as after-action reviews and partner meetings, may be more sporadic and opportunistic. Anticipated opportunities over the life of the CDCS to assess progress include:

- Portfolio reviews to periodically examine all aspects of the operating unit's strategy, projects, or activities. USAID will conduct at least one portfolio review per year that focuses on progress toward strategy-level results.
- Mid-course CDCS stocktaking, in accordance with the appropriate ADS guidance, at least once during the course of CDCS implementation.

USAID will incorporate additional periodic opportunities to reflect on progress as needed, such as after-action reviews, partner meetings, and program reviews or stocktaking with other international partners and non-USAID stakeholders.

Gender Recommendations

USAID carried out an analysis of gender considerations and disparities in Tunisia to inform program development and contribute to better outcomes. Tunisia is a very dynamic and resourceful country that set an unprecedented example for the world with its recent peaceful transition from a dictatorship to a democracy. As Tunisia consolidates its democracy and moves toward a more inclusive and free society, it is imperative to continue engaging civil society and local communities. Conclusions and recommendations stem from four identified gender inequality areas that programming should take into account when designing and implementing an activity:

1. Geography - difference between regions (coast vs. interior, rural vs. urban, north vs. south, and east vs. west)
2. Difference among laws, including the enforcement of laws, and practices
3. Mismatch of workforce skills and expectations
4. Generational divide

In each of these areas, it is critical to good development to consider the impact programming will have on men, women, boys, and girls and not just examine the impact on Tunisian females. Gender equality not only contributes to better developmental outcomes, but promotes long-term sustainability. The team recommends a gendered approach to all programming, nevertheless, that includes specific recommendations to ensure that the gender equality strides that Tunisia has taken continue in practice, with no backsliding.

Recommendations

Health

- Support sensitivity training for government service providers, clinics, hospitals, and with investigators on domestic violence.
- Encourage reproductive education through youth organizations and schools.
- Conduct research on best entry points for reaching men on the issue of GBV.

Education

- Increase equal access for young women and men for internship and vocational education opportunities, including education and career fairs.
- Support programs and leadership training opportunities that will offer young women and young men “soft skills” and “life skills” in an effort to help to bridge the gap between university education and professional employment. These programs and trainings would promote gender equality for opportunity to enter into all employment sectors.

Economic Growth

- Conduct a labor market analysis to identify the types of jobs that women and men have, types of jobs that women and men want, and the potential for job growth.
- Integrate gender into any youth employment readiness training, with an emphasis on gender equality of direct supervisory positions. Work with the government and private sector to create a more supportive working environment for women, especially for those who desire, or are already in, leadership positions.
- Conduct research on viability of part-time work, and home-based businesses as options for women to maintain their technical skills, add to the family's income, and establish some financial independence to promote gender equality and joint decision making.

Democracy, Human Rights, and Governance

- Support public awareness campaigns on elections and the importance of political participation, especially in rural areas with marginalized populations.
- Develop appropriate approaches and programs geared toward increasing women's political participation at all levels, including leadership.
- Encourage gender sensitive budgeting to address issues of allocation of resources to promote gender equality through planning, budgeting preparation, and execution.
- Engage with media and social media to include more female role models.

Water and Energy

- Conduct a water assessment and consider gender dynamics in social and economic spheres given the possibility of a drought or flash floods in various regions (coastal, rural/heavy agriculture, desert, urban, etc.).
- Promote water and energy conservation with a gender sensitive lens. Target young men and women with an emphasis on shared knowledge about household budget and joint decision making.

Cross-Cutting

- Coordinate with government and other international partners on countering violent extremism through cross sectoral assessments and programming. Consider drivers of both male and female participation and prevention methods.
- Work with the government on domestic violence concerns to improve and increase legal, psychosocial, and safe haven support for gender based violence (GBV) survivors. Engage with police and government workers on socialization and best practices. More dedicated resources are required to train staff, raise awareness and support expanded services to GBV survivors.
- Promote public awareness on the need to combat violence, which includes gender based

violence, domestic violence, and violent extremism.

General

- Build capacity and train government counterparts on conducting gender analyses and/or adopting international best practices related to gender equality and female empowerment in developing and implementing regulations, policy, and programming.
- With additional data sets and indicators, construct Geographic Information System (a system designed to capture, store, manipulate, analyze, manage, and present all types of spatial or geographical data) maps for purposes of benchmarking and geographic comparisons.

Climate Change Considerations

Working with USAID's Global Climate Change (GCC) office, the USAID Middle East Bureau's Regional Environmental Advisor facilitated a climate risk screening for planned activities in Tunisia using GCC's climate risk screening tool. The climate risk screening determined that Tunisia generally has a moderate climate risk in the immediate and long term (defined as 20 years).

In the economic growth sector, the screening identified climate vulnerabilities related to water and electricity provision. Diversified economic activity could potentially help slow down migration to the urban coastal areas as well as mitigate negative environmental impacts in marginalized areas. Firm-level work under DO 1 will work with a wide array of private sector businesses to promote inclusive economic growth. By diversifying economic opportunities, DO 1 will build the private sector's overall capacity and will expand opportunities for a wide array of businesses, which could potentially include businesses interested in expanding into the green economy. In addition, DO 1's attention to improve public financial management will help ensure that the GOT can transparently and efficiently manage and distribute its revenue, including revenue tied to natural resources.

Climate change is expected to have a low-to-medium impact on democracy, human rights, and governance. The GOT has already committed to protecting the physical environment and addressing climate change. The larger issue, however, is the lack of local government capacity and resources to respond to climate challenges. Under DO 2, USAID's efforts to strengthen effective and responsive local governance could help improve the capacity of local governments to address climate-related issues, including resource management and mitigation. In addition, community resilience activities under this DO may also, depending on the core issues identified in targeted communities, help address underlying stressors - such as the distribution and protection of natural resources - that drive conflict.