

**DOCUMENT OF THE EUROPEAN BANK  
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 20 July 2022<sup>1</sup>

**TUNISIA**

**OFFICE DES CEREALES - WORKING CAPITAL**

*[Redacted in line with the EBRD's Access to Information Policy]*

*[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]*

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<sup>1</sup> As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

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## ABBREVIATIONS / CURRENCY CONVERSIONS

|                |   |
|----------------|---|
| AEB            | Agreement Establishing the Bank                                 |
| AfDB           | African Development Bank  |
| BH             | Banque de l'Habitat   |
| Bn or bn       | Billion   |
| BNA            | Banque Nationale Agricole                                       |
| BPS            | Basis Points  |
| BT             | Banque de Tunisie   |
| Ca. or ca.     | Circa   |
| CP             | Condition Precedent   |
| EBITDA         | Earnings Before Interest, Taxes, Depreciation, and Amortization |
| EIB            | European Investment Bank  |
| ESAP           | Environmental and Social Action Plan                            |
| ESDD           | Environmental and Social Due Diligence                          |
| EUR            | Euro  |
| FAO            | Food and Agriculture Organization                               |
| FDI            | Foreign Direct Investment                                       |
| FX             | Foreign Exchange  |
| GDP            | Gross Domestic Product  |
| IMF            | International Monetary Fund                                     |
| K              | Thousand  |
| M or m         | Million   |
| MT             | Metric Ton  |
| MAHRF          | Ministry of Agriculture, Hydraulic Resources and Fisheries      |
| ODC            | Office des Cereales   |
| PP             | Procurement Plan  |
| PSD            | Project Summary Document  |
| RAROC          | Risk-Adjusted Return On Capital                                 |
| SC2R           | Sector and Corporate Reform Roadmap                             |
| SSF            | Shareholder Special Fund  |
| STB            | Société Tunisienne de Banque                                    |
| STD            | Standard Tender Documents                                       |
| T or t         | Ton   |
| TC             | Technical Cooperation   |
| TD             | Tender Documents  |
| TND            | Tunisian Dinar  |
| UBCI           | Union Bancaire pour le Commerce et l'Industrie                  |
| USD            | United States Dollar  |
| USDA           | United States Department of Agriculture                         |
| Y-o-Y or y-o-y | Year on Year  |
| %              | Per cent  |

### CURRENCY EQUIVALENTS

(For the purpose of this paper and unless stated otherwise)

Currency limit= EUR & TND  
 EUR = TND 3.26  
 18 June 2022

## **PRESIDENT’S RECOMMENDATION**

This recommendation and the attached Report concerning an operation in favour of the Office des Cereales (the “Company” or “ODC”), a Tunisian state owned enterprise in charge of procurement, storage, and sales and distribution of wheat and barley, are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign guaranteed loan to the Company in the amount of up to EUR 150,500,000. The loan will be guaranteed by the Republic of Tunisia.

The facility represents the Bank’s first public sector response to the food insecurity crisis in SEMED, including Tunisia, which relies on imports for two thirds of its wheat and barley needs. The Project will provide vital food security support to Tunisia through a working capital funding to ODC to enable international procurement of soft wheat, durum wheat, and barley, representing up to 15 per cent of Tunisia’s wheat and barley annual import needs and help alleviate food security pressures on the country.

The transition impact of the project is expected to derive from the Resilient and Well-Governed qualities namely through: (i) supporting the Tunisian government to respond to its emergency food security needs; [REDACTED] implementation of a sector and corporate reform roadmap supported by a policy dialogue and technical assistance package that aim to progressively transfer ODC’s wheat and import activity to private sector operators,<sup>2</sup> and improve ODC’s corporate governance standards and general practices, including on Gender equality. [REDACTED].

I am satisfied that the operation is consistent with the Bank’s Strategy for Tunisia and the Bank’s Agribusiness Sector Strategy, and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan and the SSF TC Grant substantially on the terms of the attached Report.

**Odile Renaud-Basso**

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<sup>2</sup> For the avoidance of any doubt, only partial transfer of these activities is contemplated.

## BOARD DECISION SHEET

| TUNISIA – ODC – Food Security Resilience Response - DTM 53812 |   |
|---|---|
| <b>Transaction / Board Decision</b>                           | Board approval <sup>3</sup> is sought for a sovereign-guaranteed loan (the “Loan”) of up to EUR 150,500,000 in favour of Office des Cereales (“ODC” or the “Company” or the “Borrower”), a Tunisian state owned enterprise, to fund working capital needs related to the international purchase of soft wheat. The Loan will be guaranteed by the Republic of Tunisia. [REDACTED].  |
| <b>Client</b>   | ODC is in charge of international and national procurement, storage, sales and distribution of durum wheat, soft wheat, and barley in Tunisia. In 2021, the Company achieved revenues of EUR 1 billion and total assets of EUR 1.1 billion. The Guarantor, the Republic of Tunisia, is rated CCC by Fitch and Caa1 by Moody’s.  |
| <b>Main Elements of the Proposal</b>                          | <p><u>Transition impact:</u></p> <p>Resilient – (i) liquidity support to ODC to respond to Tunisia’s emergency food security needs [REDACTED]</p> <p>Well-Governed – the Project entails the implementation of a sector and corporate reform roadmap (through TC support) that aims to progressively transfer ODC’s wheat and barley import activity to private sector operators, and improve ODC’s corporate governance standards including on Gender equality.</p> <p><u>Additionality:</u></p> <p>[REDACTED] [P]olicy-oriented initiatives expected not only to improve the practices and standards of ODC as an institution, but also to pave the way for complex sector-wide reforms that will allow for greater role of the private sector, and (iii) ODC will introduce more gender-equal policies, practices, and governance structures.</p> <p><u>Sound banking:</u> the proposed financing structure addresses sound banking [REDACTED] that would ensure the Bank’s close monitoring of the evolution of Tunisia’s sovereign risk metrics and the government’s implementation of the Sector and Corporate Reform Roadmap (“SC2R”). Furthermore, the current sovereign limit utilisation would remain reasonable [REDACTED] when including this Loan.</p> |
| <b>Key Risks</b>  | <p><b>Sovereign / Political risk:</b> Tunisia is rated Caa1 with negative outlook by Moody’s and CCC by Fitch. In 2021, the recovery was moderate with GDP growth of 3.5 per cent.[REDACTED].</p> <p><b>Financial risk:</b> The Company is highly leveraged [REDACTED]. The Loan will benefit from a sovereign guarantee.</p> <p><b>SC2R implementation risk:</b> The SC2R will be finalised and agreed before signing of the Loan [REDACTED].</p>  |
| <b>Strategic Fit Summary</b>                                  | The Project is consistent with the Bank’s Country Strategy for Tunisia and in line with the Bank’s Agribusiness Sector Strategy.  |

<sup>3</sup> Article 27 of the AEB provides the basis for this decision.

## ADDITIONAL SUMMARY TERMS FACTSHEET

|   |  |
|---|--|
| <b>EBRD Transaction</b>   | Up to EUR 150.5 million sovereign-guaranteed loan (the “Loan”) to Office des Cereales (“ODC” or the “Company” or the “Borrower”), a Tunisian state owned company in charge of international and national procurement, storage, sales, and distribution of durum wheat, soft wheat, and barley in Tunisia.<br><br>The Guarantor (Republic of Tunisia) will irrevocably and unconditionally guarantee the Loan until its maximum maturity date.  |
| <b>Existing Exposure</b>  | Exposure to ODC: None<br><br>Total current sovereign exposure in Tunisia: EUR 591 million Sovereign Portfolio / EUR 143 million Sovereign Operating Assets.  |
| <b>Maturity / Exit / Repayment</b>  | [REDACTED].  |
| <b>Potential AMI eligible financing</b>   | N/A  |
| <b>Use of Proceeds</b>  | The proceeds from the Loan will finance ODC’s working capital needs related to international purchase of soft wheat, durum wheat, and barley. The Loan will finance the imports of [REDACTED] soft wheat, durum wheat, and barley (the “Project”) [REDACTED].<br><br>Use of proceeds will be monitored through disbursement directly to the suppliers (or via letters of credit) against satisfactory documentary evidence provided by the Borrower. ODC would be assisted by a procurement specialist (consultant) as part of TC1. Monitoring of use of proceeds will be done for each grain purchase order financed by the Loan. [REDACTED].                   |
| <b>Investment Plan</b>  | [REDACTED]   |
| <b>Financing Plan</b>   | [REDACTED]   |
| <b>Key Parties Involved</b>   | ODC: the Borrower<br><br>Republic of Tunisia: the Guarantor  |
| <b>Conditions to disbursement</b>   | [REDACTED]   |
| <b>Key Covenants</b>  | [REDACTED]   |
| <b>Security / Guarantees</b>  | Sovereign Guarantee.   |
| <b>Other material agreements</b>  | <ul style="list-style-type: none"> <li>• Loan agreement between the Bank and the Borrower.</li> <li>• Guarantee agreement will be entered into between the Bank and Republic of Tunisia (the “Guarantee Agreement”) to back the obligations of the Borrower.</li> </ul>  |
| <b>Associated Donor Funded TC and co-investment grants/concessional finance</b> | The Project involves a post-signing technical cooperation (TC) project [REDACTED]. The TC project entails: <ul style="list-style-type: none"> <li>- <b>Assignment 1:</b> A commodities and market expert to support the procurement by ODC of grain in the market as part of the Project implementation.</li> <li>- <b>Assignment 2:</b> A project coordinator to ensure a cohesive and systematic implementation, monitoring and reporting of the various assignments part of the TC support.</li> <li>- <b>Assignment 3:</b> Advisory and capacity building for corporate-level improvements across three dimensions: (i) procurement practices and</li> </ul> |

|  |   |
|--|---|
|  | <p>function; (ii) management procedures and digital transformation of ODC (including the transition to IFRC compliance, the implementation of a risk management framework and the preparation of a roadmap to the digital transformation); and (iii) corporate governance, including gender mainstreaming. The extensive review of ODC's practices and standards will be followed by the formulation of action plans expected to be implemented with the assistance of the consultants and with regular monitoring and reporting on the progress. Tailored capacity building will be designed and implemented in the presence of identified implementation gaps.</p> <ul style="list-style-type: none"> <li>- <b>Assignment 4:</b> The objective of the assignment is to pave the way for a grain sector reform for addressing structural weaknesses and achieving greater role of the private sector. The scope of work entails: (i) in-depth assessment of structural weaknesses in the grain sector and capacity to reform; (ii) the engagement in a multi-stakeholder dialogue on reforming the grain sector and promoting greater role of the private sector; (iii) the support in the implementation of the grain sector reform plan with tailored capacity building; and (ii) monitoring and reporting on implementation.</li> </ul> <p>Please refer to Annex 6 for a more detailed TC package overview.</p> |
|--|---|

[REDACTED]

## INVESTMENT PROPOSAL SUMMARY

### 1. STRATEGIC FIT AND KEY ISSUES

#### 1.1 STRATEGIC CONTEXT

The war on Ukraine is having an enormous impact on global food security. Ukraine and the Russian Federation account cumulatively for ca. one-third of global cereal exports and for ca. half of the export market for sunflower oil<sup>4</sup>. These shortfalls can only be partially compensated by alternative origins during the 2022/23 season. As a result, global food prices have increased from already high levels in 2021 (during the COVID-19 crisis) and reached record highs in recent weeks. Exports of agricultural commodities have been impacted severely, primarily due to port closures, damage of critical infrastructure, and displacement of people in Ukraine.

SEMED countries are among the largest grain importers globally, and therefore are directly impacted by the ongoing conflict due to supply chain interruptions and rising prices. According to FAO data (2022), Egypt, Jordan, Lebanon, Tunisia, and Morocco combined account for ca. 6.5 per cent of global grain imports, and 8.9 per cent of global wheat imports (by volume). Egypt alone absorbs roughly 4.5 per cent of global wheat imports.

Due to the critical importance of food security, the governments of Egypt, Jordan, Tunisia, and Lebanon, all directly engage in importing wheat (and other grains) through international public tenders. In terms of the magnitude, the government imports of wheat (and other grains) in SEMED countries are significant, with the state often being the largest or (in the case of Jordan and Tunisia) the only legal importer of wheat.

Since the war on Ukraine started, the Bank has been pro-active in trying to build an adequate response to address global food security and in particular in the EBRD's countries of operations:

**On the supply side** and in particular in Ukraine, under the EBRD Resilience and Livelihood Framework ("RLF"), the Bank is focusing on supporting grain producers and exporters (mainly existing clients of the Bank) to try to restore Ukraine's ability to export agricultural commodities. [REDACTED].

**On the demand side** and particularly in SEMED, the Bank initiated numerous discussions with private sector operators as well as state officials to assess how the Bank can be of support. The Bank has also been in regular contact with other DFIs and donors to discuss and coordinate the response to the food security crisis.

Although the Bank's involvement in addressing agricultural and food security issues has to date focused primarily on financing private sector operations, it has become apparent that for certain SEMED countries, any effective short to medium-term response to the growing food security crisis in such countries will require involvement with, and financing through, the public sector. This would be a novel approach for the

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<sup>4</sup> Source: FAO data



Bank in this sector, and arises because of the central role currently played in certain SEMED countries by the state and public sector operators in importing grains and ensuring food security, and the urgent response needed to assist such countries through the current crisis. [REDACTED].

As regards to Tunisia, which currently relies on foreign markets for two thirds of its wheat and barley needs, the procurement, storage, and sales and distribution of grains in Tunisia is currently entrusted to ODC, a state-owned enterprise. The role of ODC is to (i) ensure food security to Tunisia through continuous grain supply, (ii) ensure continuous food security reserves, and (iii) act as an intermediary between the State Subsidy Fund (Caisse Generale de Compensation) and flourmills. ODC's role and its continued functioning is therefore key to the current agricultural infrastructure of the country, as further detailed herein. In the current economic circumstances, Tunisia requires the Bank's support in order to weather the food security crisis by providing financial support to ODC's current activities and also to assist it in implementing structural and sectoral reforms that would facilitate the gradual transition of a portion of ODC's import activities to private operators with the aim of addressing the structural weaknesses of the state-dominated grain sector. The Project will provide vital food security financing in the form of a working capital facility to the ODC to enable international procurement of [REDACTED] soft wheat, durum wheat, and barley [REDACTED].

In combination with its financing, the Bank is also seeking to provide technical assistance and policy dialogue support to SEMED governments, in close cooperation with other IFIs and donors by providing advice on managing the food security crisis and enhancing the role of the private sector in the grain and oilseeds supply chains.

Despite the government's strategy to boost local production, Tunisia remains heavily dependent on grain imports. The majority of annual needs are ensured by imports, which gives Tunisia a dependency rate of ca. 39 per cent for durum wheat, ca. 95 per cent for soft wheat and ca. 97 per cent for barley. This implies an overall dependency rate of ca. 75 per cent. In recent years, Ukraine and Russia supplied on average 48 per cent and 8 per cent respectively of Tunisia's wheat and barley import needs. In 2022, Tunisia is expected to import 2.6 million tons of wheat and barley [REDACTED]. The Loan would finance ca. 15 per cent of the country's total annual estimated wheat and barley import needs in 2022.

The short-term objective of the Project is to provide critical emergency financial support to ODC [REDACTED]. The Loan will partially fill a funding gap of ODC [REDACTED] exacerbated by recent hikes in international grain prices resulting from the war on Ukraine and the disruption caused in international grain supply. [REDACTED]. Tunisia's stocks currently cover the country needs for durum wheat until June 2022, barley until August 2022, and soft wheat until September 2022. Hence, the proposed tight timeline for the Project.

The Project also represents an opportunity for initiating a long-term oriented policy dialogue with the Tunisian government and ODC that is expected to pave the way for addressing some structural weaknesses in the Tunisian grain sector, with entrenched competitiveness challenges, which have been exacerbated by the current international food crisis, and that continue to weigh heavily on the Tunisian government finances.

Recent hikes in international commodity prices not only impact Tunisia's FX reserves, and subsidies' budget to maintain a low price of bread, but also the working capital needs of state owned entities such as ODC. This is increasing the financial indebtedness (and financial expenses) and FX needs of Tunisia, highlighting the structural weaknesses and limits of a state dominated grain sector and the need to progressively transfer these activities to the private sector.<sup>5</sup> The Bank has a role to play in fostering improvements at ODC level and sector wide in Tunisia.

To this end, the Bank will seek to mobilise a technical cooperation ("TC") project to support a Sector and Corporate Reform Roadmap ("SC2R"), converging with the IMF priorities on SOE reform in Tunisia, [REDACTED] to target: (i) setting up a working group involving relevant local stakeholders that, on the basis of an in-depth review of the Tunisian grain sector conducted by experts, will formulate an action plan expected to reform the Tunisian grain market and to lead to at least a partial spin off of ODC import activity to private sector operators within five years from signing of the Project; and (ii) guide the process of reform of ODC towards its commercialisation, with operational efficiency, and corporate governance, practices and standards improvements. The scope and ambitions of the SC2R and TC package are detailed in Annexes 5 and 6 respectively and are expected to be finalised with the ODC and Tunisian authorities before signing of the Loan. The implementation of the SC2R including the effective partial transfer to private sector operators will be closely monitored [REDACTED].

The Project is consistent with the Bank's Country Strategy for Tunisia that prioritises "increased private sector participation in some state dominated sectors and support SOE reform". The Project is also in line with the Bank's Agribusiness Sector Strategy which identifies food security as an operational priority in SEMED countries.

## 1.2 TRANSITION IMPACT

### Primary Quality: Resilient

| Obj. No. | Objective  | Details   |
|----------|--|---|
| 1.1      | <i>The project entails addressing current liquidity shortages of the company resulting from a sudden, significant change in economic activity due to a crisis event.</i> | <p>The war on Ukraine led to significant disruption in world grain markets affecting world supply and international grain prices, on the back of a trend of already increasing food prices. This has led to a significant impact on countries that are dependent on imports from the Black Sea region such as Tunisia. With respect to wheat, Ukraine directly provides Tunisia with ca. 48 per cent of its wheat imports. In addition, local production is limited mainly because of insufficient rainfall.</p> <p>The Project contributes to the Resilient quality by supporting the Tunisian government, through its main operational arm in the grain market, to respond to the heightened food security needs. The recent all-time high international grain prices</p> |

<sup>5</sup> For the avoidance of any doubt, only partial transfer of these activities is contemplated.

|     |  |  |
|-----|--|--|
|     |  | created additional working capital needs for ODC (related to its grain import activity) increasing ODC wheat and barley import bill [REDACTED] that the Loan is aiming to partially address [REDACTED]. The Loan will translate into [REDACTED] equivalent of imported soft wheat, durum wheat, and barley. [REDACTED] |
| 1.2 | <i>The client/sponsor will engage in a resilience-focused policy dialogue initiative that is relevant in the country and sector context, taking a supporting role (e.g. a client joining a well-established initiative, launching an initiative with a limited/specialised impact, or with engagement limited to attending meetings etc.).</i> | The Project is supplemented by a region-wide policy dialogue co-led by the EBRD and the FAO (beyond the proposed client-specific TC project). The policy dialogue is currently under development and aims to support countries in the SEMED region [REDACTED]  |

### Secondary Quality: Well-Governed

| Obj. No. | Objective   | Details   |
|----------|---|---|
| 2.1      | <i>The client/sponsor will engage in a policy dialogue initiative that is highly relevant or innovative, addressing a key challenge in the country or sector (aimed at improving governance), and take a leading role in the envisaged activities (e.g. a company supporting a new or particularly challenging initiative, taking an active role by mobilising other stakeholders, providing substantial contributions to activities etc.).</i> | <p>The Project will entail a client-specific TC project with two key assignments. The first one entails the establishment of a policy dialogue for reforming the grain sector and ultimately increasing the involvement of the private sector. Wheat and barley are the two agricultural commodities strategic for the country's food security and whose procurement and distribution are still subject to full state control.</p> <p>The policy dialogue comprises the following key outputs, including:</p> <ul style="list-style-type: none"> <li>• The completion of an in-depth assessment of the grain sector, the challenges and bottlenecks and the opportunities for reform in order to achieve greater role of the private sector and potentially gradually re-centre the role of ODC within the grain market (from operator to regulator).</li> <li>• The creation of a working group ("Working Group") for a multi-stakeholder dialogue that will include ODC, the relevant departments of the Government of Tunisia (including the Ministry of Agriculture), representatives of international organisations and international financial institutions (e.g. the EBRD, the FAO, potentially the IMF and</li> </ul> |

|     |  |   |
|-----|--|---|
|     |  | <p>other IFIs), and representatives of the private sector.</p> <ul style="list-style-type: none"> <li>The development of a reform plan jointly agreed within the Working Group and endorsed by the Government of Tunisia, with some complementary implementation support and tailored capacity building to address capacity gaps.</li> </ul> <p>The policy dialogue objectives and implementation milestones are detailed in a Sector and Corporate Reform Roadmap (“SC2R”) (draft attached in Annex 5) that will be annexed [REDACTED]. The SC2R will be part of the negotiation together with the Loan agreement with Tunisian authorities. It is expected that, within 5 years from Loan signing, the sector reform-focused policy dialogue will lead to [REDACTED] [some] wheat and barley imports to be transferred from ODC to private sector operators.</p>  |
| 2.2 | <i>Substantial improvements of corporate governance will be implemented.</i> | <p>The second key assignment of the client-specific TC project will offer support to ODC to achieve corporate-level improvements of governance, standards, and practices. The support will entail an assessment of the client’s current practices and the identification of main gaps vis-à-vis best practice, followed by a definition of specific action plans and tailored implementation support and capacity building, where capacity gaps are identified, with a focus on the following areas<sup>6</sup>:</p> <ul style="list-style-type: none"> <li>Corporate governance and internal organisation: definition/division of roles, responsibilities, reporting and accountability lines within ODC; monitoring and disclosure functions; code of conduct and compliance function; transparency standards; adequacy of structure for autonomy and efficient and agile decision-making.</li> <li>Financial accounting and reporting: transition to IFRS;</li> <li>Risk management function: risk management framework including potentially commodity and FX risk management;</li> </ul> |

<sup>6</sup> This transaction will serve to build up the basis of a reform that should be implemented across several stages, as the loan is rolled-over from year to year. The TC will also serve as a vehicle for identification of the issues and for building consensus in the journey of reform integrated in the Sector and Corporate Reform Roadmap (“SC2R”), [REDACTED]. It should also be considered that some areas for improvement might require legislative amendments, and as such, the Bank will engage in a dialogue with relevant authorities over the course of the implementation of the TC.

|  |  |  |
|--|--|--|
|  |  | <ul style="list-style-type: none"> <li>Digitalisation of practices: opportunities for digitalisation, including on enhanced inventory management.</li> </ul> <p>ODC will commit to the full implementation of the action plans that will be produced with the support of consultants and will focus on the above areas. [REDACTED]</p> |
|--|--|--|

**Risks to TI delivery:** The key risks to the achievement of transition impact are potential delays and obstacles in relation to the launch and implementation of the envisaged policy dialogue (both the FAO-EBRD led and the client-specific policy engagement) that will be underpinned by TC support with elements of advisory, capacity building and advocacy. The risks are particularly relevant in the Tunisian context, given the heightened financial difficulties and negative economic outlook, with also limited reforms delivered in recent years. However, these risks are expected to be mitigated by the commitment to collaborate with the EBRD in a context of severely worsening food insecurity that calls for the development of an adequate and effective response that builds resilience to future shocks. [REDACTED] The key activities and outcomes of the various policy components (as reflected in the TI benchmarks) [REDACTED]; which offers additional comfort on the commitment of the relevant stakeholders. Furthermore, Tunisia went through a similar exercise in the 1990s where import of corn, soya and alfalfa was privatised, and is since then completely handled by private sector operators. Lastly, it is important to note that there are material risks to the Competitive transition quality rooted in the Project due to the Tunisian state's footprint throughout the value chain in terms of a monopolistic market structure and strong regulation in the form of production and consumption support measures, control over imports and exports, as well as influence over downstream activities. The analysis of the Tunisian cereals value chain and regulatory environment was conducted and pointed to the competitiveness-related concerns. However, these were assessed alongside the expected long-term transition benefits of the Project and can be considered mitigated by the presence of a policy dialogue underpinned by TC support aimed to realise corporate-level improvements and pave the way for sector-wide reform with a view to greater role of the private sector.

### 1.3 ADDITIONALITY

| Identified triggers  | Description  |
|--|--|
| A significant share (at least 50%) of the project is to <b>finance working capital</b> . | The Project aims to provide emergency financing support to ODC to match its sudden increase in working capital needs (related to its grain import activities). The unexpected limited availability in international grain markets, due to the war on Ukraine, led to all time high grain prices and sizeable working capital needs for ODC with estimated wheat and barley import needs for 2022 [REDACTED]. |

| Additionality sources  | Evidence of additionality sources  |
|--|--|
| <b>Financing Structure</b><br>EBRD offers a tenor, which is above the market average and is necessary to structure the project.  | Recent hikes in international grain prices have led to a significant increase in ODC working capital needs, creating a sizeable funding gap for ODC. ODC has been to date exclusively financed by a pool of five Tunisian banks [REDACTED] all providing short term loans and increasingly reaching their limit in terms of banking exposure to the ODC. The difficult economic conditions in Tunisia further limit ODC's access to international commercial lending, highlighting the crucial need for a crisis response such as the one suggested by EBRD and other DFIs.  |
| <b>Policy, sector, institutional, or regulatory change</b><br>EBRD's involvement in a project is considered additional when it is designed to trigger a change in the policy, sector, institutional or regulatory framework, or enhance practices at the sector or country level (e.g., an introduction of cost-reflective pricing of energy, water etc.). | The project is accompanied by a client-specific TC package and will be implemented alongside the EBRD-FAO-led policy dialogue. Both initiatives will build on EBRD's expertise in the agribusiness sector including with private soft commodity operators, as well as in supporting corporate-level and sector-wide reforms. These policy-oriented initiatives are expected not only to improve the practices and standards of ODC as an institution, but also to pave the way for complex sector-wide reforms that will allow for a greater role of the private sector and also ultimately will have the potential to strengthen the resilience of the country to future shocks.                              |
| <b>Standard-setting: helping projects and clients achieve higher standards (Gender Additional)</b>   | As part of EBRD's engagement and the accompanying TC on corporate governance improvements, ODC will introduce more gender-equal policies, practices and governance structures. Firstly, the Company will introduce an explicit equal opportunities policy, prohibiting discrimination and establishing equal opportunities in recruitment, retention and career progression. Secondly, the Company will introduce gender-based violence and harassment (GBVH) reporting and complaint mechanisms. Lastly, to ensure overall accountability and meeting of the specific targets, ODC will appoint a gender focal point in its highest governance body responsible for promoting gender equality in the company. |

#### 1.4 SOUND BANKING - KEY RISKS

| Risks                           | Probability / Effect | Comments  |
|---------------------------------|----------------------|---|
| Sovereign risk / Political risk | <i>Medium / High</i> | Tunisia is rated Caa1 with negative outlook by Moody's and CCC by Fitch. In 2021, the recovery was moderate with GDP growth of 3.5 per cent. Growth prospects for 2022 and 2023 are weak (GDP growth of 2.0 per cent and 2.5 per cent respectively). Progress on a new IMF-supported programme has been slow, given political |



|                             |               |   |
|-----------------------------|---------------|---|
|                             |               | <p>developments since July 2021, although technical negotiations have been ongoing. [REDACTED].</p> <p>The economic and social crisis in Tunisia has been compounded over the past years by continued political instability. [REDACTED]. The current situation as well as the upcoming political milestones and how they will unfold constitute a risk to the transition and reform objectives of the Project [REDACTED].</p>   |
| Financial risk              | High / Medium | <p>The company is highly leveraged [REDACTED]. The debt relates mainly [REDACTED] to short term loans provided by a pool of five Tunisian banks used to finance working capital needs [REDACTED].</p> <p><i>Mitigant:</i> The Bank relies strongly on the sovereign guarantee and its preferred creditor status. The proposed TC package will also look at potential reforms that over the medium to long term would reduce the financial burden on ODC. This will be achieved by outsourcing some of the international purchase of grains to private sector operators, hence leading to lower working capital needs and reduced financial expenses for ODC the Tunisian state.</p>   |
| Roadmap implementation Risk | Low / Medium  | <p>The Bank aims to agree with the Tunisian authorities before signing on a comprehensive SC2R, the implementation of which will depend on the willingness of ODC and government counterparts to undertake the necessary efforts.</p> <p><i>Mitigant:</i> the Bank will seek consensus over the Roadmap before its finalisation and implementation. [REDACTED].</p>   |
| Regulatory risk             | High / High   | <p>As a state-owned entity, ODC ensures the supply of grains to Tunisia through the purchase of local and imported grains, as well as the storage and marketing of these grains. The ODC also implements actions to supervise the local grain value chain. ODC is the financial intermediary between the State Subsidy Fund (CGC) and the operators in charge of local collection, storage and processing. To achieve its role, ODC has a monopoly on the purchase (local and international) and marketing of grains in Tunisia. The Tunisian government sets selling prices at all stages of the value chain: production, collection, processing, transportation, and consumption. Hence, ODC receives funds from the CGC to compensate for the price difference between ODC's purchase price and sale price to privately owned millers (which is lower than the purchase price to ultimately ensure a low bread price). The rapid deterioration of the Tunisian government's finances might further exacerbate this regulatory environment risk.</p> <p><i>Mitigant:</i> The grain market is likely to be gradually liberalised in the future. Several successful privatisations in the Tunisian agricultural sector have been undertaken</p> |

|  |  |  |
|--|--|--|
|  |  | in the past. Indeed, during the 1990s and as result of the agricultural structural adjustment plan, the Tunisian state liberalised the import, export, and marketing of corn, soya, alfalfa, and potatoes. Since 2005, ODC has outsourced the local collection of wheat and barley to 14 private companies (including two cooperatives) with the aim to reduce working capital pressure on ODC and focus on more strategic activities (imports and control). Finally, the proposed TC intervention will particularly focus on commercialisation of ODC standards and ultimately increase private sector participation in Tunisian wheat and barley value chains. |
|--|--|--|

[REDACTED] [T]he proposed financing structure is designed to address sound banking [REDACTED] structure that would ensure the Bank's close monitoring of the evolution of Tunisia's sovereign risk metrics and the implementation of the SC2R. [REDACTED].

## 2. MEASURING / MONITORING SUCCESS

| <i>Overall objectives of project</i> | <i>Monitoring benchmarks</i> | <i>Implementation timing</i> |
|--------------------------------------|------------------------------|------------------------------|
| On-time project implementation       | [REDACTED]                   | [REDACTED]                   |

### TI indicator(s), primary Quality: Resilient

| Obj. No. | Monitoring indicator   | Details  | Base-Line  | Target     | Due date   |
|----------|--|--|------------|------------|------------|
| 1.1      | Operational performance of the client: other   | ODC will purchase [REDACTED] soft wheat, durum wheat, and barley | [REDACTED] | [REDACTED] | [REDACTED] |
|          | Client engages in policy dialogue: providing substantial contributions to activities | [REDACTED]   | [REDACTED] | [REDACTED] | [REDACTED] |

### TI indicator(s), secondary Quality: Well-Governed

| Obj. No. | Monitoring indicator                                  | Details  | Base-Line  | Target     | Due date   |
|----------|---|--|------------|------------|------------|
| 2.1      | Client engages in policy dialogue: attending meetings | The multi-stakeholder working group is established, including relevant government entities of Tunisia and ODC. | [REDACTED] | [REDACTED] | [REDACTED] |
| 2.2      | Client engages in policy dialogue: providing          | A sector blueprint for greater role of the private sector in the grain   | [REDACTED] | [REDACTED] | [REDACTED] |



|     |  |   |            |            |            |
|-----|--|---|------------|------------|------------|
|     | substantial contributions to activities  | sector is produced and agreed among stakeholders.   |            |            |            |
| 2.3 | Corporate governance improved: Commitment to Corporate Governance [Covenanted] | Implementation of the corporate-level action plan to be developed through TC support, focusing on corporate governance, risk management, financial accounting and reporting and digitalisation as per SC2R. | [REDACTED] | [REDACTED] | [REDACTED] |
| 2.4 | Client engages in policy dialogue: other                                       | [REDACTED] [P]er cent of international procurement of wheat and barley to be conducted by private sector operators.   | [REDACTED] | [REDACTED] | [REDACTED] |

#### Additional indicator(s): Gender SMART

| Obj. No. | Monitoring indicator   | Details  | Base-Line  | Target     | Due date   |
|----------|--|--|------------|------------|------------|
| 1.1      | Practices of the relevant stakeholder improved (inclusive human resources policies and practices encompassing previously excluded target groups) | ODC introduces gender-based violence and harassment (GBVH) reporting and complaint mechanisms; explicit equal opportunities policies; and selects a gender focal point in its highest governance body. | [REDACTED] | [REDACTED] | [REDACTED] |

## 3. KEY PARTIES

### 3.1 ODC – BORROWER

**History and background:** ODC is a 100 per cent state-owned company, under the supervision of the Ministry of Agriculture. It was founded in 1962, eight years after independence from the French protectorate, when the Tunisian government decided to nationalise the international and national procurement, storage, and sales and distribution of grains in Tunisia. The Tunisian government entrusted these activities to ODC with the aim to grant it a pivotal role in the Tunisian grain sector infrastructure and architecture to: (i) ensure food security to Tunisia through continuous grain supply, (ii) ensure continuous food security reserves, and (iii) act as an intermediary between the State Subsidy Fund (*Caisse Generale de Compensation*) and flourmills. It is worth noting that the import of corn, soya, and alfalfa that was historically within the perimeter of ODC, was liberalized in 1990s and has since been completely handled by private sector operators. Since then, ODC's perimeter has been limited to durum wheat, soft wheat, and barley.

**Grain Procurement:** ODC has the exclusivity on procurement of durum wheat, wheat, and barley both internationally and locally. The level of imports depends on the quality of the Tunisian harvest but in recent years has tended to represent ca. two thirds of

national consumption, which is expected to stand at 4.4 million tons in 2022/23 (market year starting July 2021) (stable y-o-y)<sup>7</sup>:

- **Imports:** ODC buys the grains on international markets depending on the expectations for Tunisian grain production and movements in international grain prices. The purchase is made through international tenders to international traders that are pre-registered with ODC (38 currently). The Company launches up to 20 international tenders per year. The tenders, as well as the pre-registration process for international traders, are supervised by a special committee.
- **Local:** ODC outsources local collection to 14 private companies (including two cooperatives) with the aim to reduce working capital pressure on ODC and focus on more strategic activities (imports and control). These private collection companies have ODC as a single customer except when authorized by ODC to sell the grains directly to flourmills. However, to minimize transport and storage costs, an increasing portion is sold directly to ODC's clients (flourmills).

**Sales, pricing, and margins:** ODC sells both imported and locally sourced grains to Tunisian flourmills. The sale price to flourmills is always lower than ODC's purchase price and is fixed by the Tunisian government to ultimately ensure the low and fixed price of bread. The gap between purchase and sale price is paid to ODC by the Tunisian government through the State Subsidy Fund (*Caisse Generale de Compensation or "CGC"*). In addition to the state subsidy, ODC is authorised to charge a margin over sales that is fixed annually by the Tunisian government. Despite government support, ODC has been accumulating losses y-o-y [REDACTED].

**Logistical Infrastructure:** ODC supervises the grain storage infrastructure in order to guarantee the permanent supply of grains to the country. In Tunisia, the national storage capacity is estimated at ca. 1.5 million tons. This capacity is shared between ODC, collectors, and flour mills. There are four types of storage in Tunisia: port storage, collection storage, inland storage and consumption storage of processors. Collection storage (private sector) represents 46 per cent of national capacity followed by inland silos at 33 per cent, then processor storage is at 16 per cent and finally, port storage is at 5 per cent. The dominance of collection silos is explained by the short local collection season (three months from June to August) and the increase in private investments thanks to increased competition among private collectors. On the other hand, the port and inland silos (controlled by ODC) dedicated to grain imports have a storage capacity of 75 thousand tons and 495 thousand tons respectively. Combined, this storage capacity does not exceed two months of national consumption on average leading to high dependency on continuous grain imports and concerns on Tunisia's food security. Finally, ODC uses both land and rail transportation to distribute both internationally and locally sourced grains throughout the country. [REDACTED].

### 3.2 REPUBLIC OF TUNISIA – GUARANTOR

The Loan will benefit from a sovereign guarantee from the Republic of Tunisia. Moody's downgraded Tunisia from Ba3 to Caa1 with negative outlook (last update on 14 October 2021). As per Moody's, the downgrade reflects weakening governance and heightened uncertainty regarding the government's capacity to implement measures that would ensure renewed access to funding to meet high financing requirements over the

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<sup>7</sup> Source: USDA

next few years. Similarly, Fitch downgraded Tunisia from B- to CCC (last update on 18 March 2022). According to Fitch, the downgrade reflects heightened fiscal and external liquidity risks in the context of further delays in agreeing on a new program with the IMF after the political changes of July 2021. [REDACTED].

## 4. MARKET CONTEXT

**Global Market:** For 2022/2023, global production of wheat is forecast at 775 million tons, down 4 million tons from the previous year and this is mainly attributed to reduced production in Ukraine due to the ongoing war. Global wheat consumption is projected at 788 million tons, down 3 million tons from last year and this is mainly attributed to reduced wheat use in animal feed mix given the soaring prices.

The current conflict in Ukraine and disruptions in the supply chain have led to a historic rise in grain prices which have more than doubled y-o-y. In fact, the price per ton of durum wheat has risen up to EUR 515/ton (vs. EUR 270/ton in June 2021)<sup>8</sup>, while the price of soft wheat per ton has risen up to EUR 430/ton (vs. EUR 199/ton in June 2021) in recent weeks before settling recently at EUR 340/ton and fodder barley has reached EUR 405/ton (vs. EUR 203/ton in June 2021)<sup>9</sup>.

**Tunisian Market:** Tunisia is a large consumer of grains with a national average of 184Kg/person/year<sup>10</sup> and accounts on average for 13 per cent of household food spending or about 4 per cent of total spending. Total wheat and barley consumption is around 4.4 million tons per year (3.1 million of wheat and 1.3 million of barley) and this is expected to remain unchanged in the medium-term. During the last few years, Tunisia has been able to produce only one-third of its consumption needs. And in 2021, the country imported 2.6 million tons of wheat and barley. Tunisia has historically imported wheat from Ukraine, the EU, Canada, and Russia. The major suppliers<sup>11</sup>, based on a five-year average, include: Ukraine (48 per cent), the EU (34 per cent), Russia and Canada (8 per cent each). Due to the conflict in Ukraine and subsequent soaring grain prices, Tunisia is facing (i) difficulties in securing an international supply of wheat and barley (competition with larger and wealthier countries) and (ii) an estimated import bill of ca. EUR 1bn in 2022. For 2022/2023<sup>12</sup>, local wheat production is expected at 1.1 million tons (mainly durum wheat) and barley is expected at 420K tons; which is almost flat compared to 2021/2022. Despite good weather conditions, farmers seeded smaller areas due to Tunisia's general economic uncertainty and farmers' unwillingness to take on financial risks. In addition, current global disruption on the fertilizers' market will most likely affect local production.

### **Regulatory snapshot:**

**Grain Imports:** ODC plays a pivotal role in Tunisia's grain import infrastructure. ODC has a monopoly on imports of wheat, and barley. It buys the grains on international markets depending on the anticipations of Tunisian grain production and movements in international grain prices. The purchase is made through international tenders to 38 (out

<sup>8</sup> [Prix du blé dur - Cotations et analyses - Marché physique \(terre-net.fr\)](https://www.terre-net.fr/prix-du-blé-dur-cotations-et-analyses-marché-physique)

<sup>9</sup> [Prix du blé dur - Cotations et analyses - Marché physique \(terre-net.fr\)](https://www.terre-net.fr/prix-du-blé-dur-cotations-et-analyses-marché-physique)

<sup>10</sup> INS (2015)

<sup>11</sup> USDA / Grain : World Markets and Trade

<sup>12</sup> USDA report

of which 12 are active) international traders that are pre-registered with ODC. Since 2016, there are no longer any import duties on wheat, but the import duty of 36 per cent on barley is maintained. The imports of corn, soya, and alfalfa were liberalized in the 1990s and they are now completely handled by private sector operators. In Tunisia, private millers may import wheat under a temporary admission regime (*“Perfectionnement actif”*) but are required to re-export the finished product after milling occurs. Exports of Tunisian wheat products require an export license. ODC sells imported (and local) grains to flourmills at a price lower than it purchased it for. The gap between purchase price and sale price is covered by subsidies paid by the Tunisian government to ODC. Tunisia subsidizes wheat consumption, guaranteeing the entire population's access to wheat flour, semolina, and bread at prices below the market rate. Bread prices are a sensitive issue, and as a result, wheat subsidies have remained unchanged despite the extreme burden that they place on the state budget.

*Local production:* ODC also plays a critical role in domestic grain production and hence in the local agricultural composition. Since 2005, local collection of grains is ensured by 14 private companies (including two cooperatives) under the direct supervision of the ODC. The collectors buy wheat on behalf of ODC at a price set by government decree which is usually below world prices (in 2021 the price was 70 per cent of the world price). These private collection companies have ODC as a single customer except when authorized by ODC to sell the grains directly to flourmills. Local production ensures on average one third of local consumption. Tunisia continues to implement a strategy to boost its cereal production. The government's goal is to reach an average annual production of 3 million tons of wheat and barley, of which 1.7 million tons is durum wheat. To help reach this goal, the government, assisted by the ODC implemented several measures that included: (i) maintaining the farm-gate price policy for wheat and barley at a relatively high level to encourage local production; (ii) increasing farmers' use of certified seeds by maintaining price subsidies for certified varieties of cereal seeds; (iii) subsidising 50 percent of agricultural machinery costs and 40-50 per cent of irrigation equipment costs; (iv) subsidising irrigation water at USD 0.07/m<sup>3</sup> (32 per cent of the real cost) to encourage increasing irrigated wheat area to 120 thousandha, and (v) providing technical assistance to irrigated wheat farmers to increase yields.

*For additional market information please refer to Annexes 7 and 9.*

## 5. FINANCIAL / ECONOMIC ANALYSIS

### 5.1 FINANCIAL PROJECTIONS

[REDACTED]. **The recovery in Tunisia was moderate in 2021, the growth outlook is subdued and pressures are mounting for reforms.** GDP grew by 3.5 per cent, driven by the rebound in manufacturing, mining and trade, but tourism and services continued to be held back by Covid-19 restrictions. Inflation has been on the rise, partly because the government had to lower subsidies on energy, given the extremely limited fiscal space. As a result, the fiscal deficit improved but debt remained high (at 7.7 per cent of GDP). The public-sector wage bill, at close to 16 per cent of GDP [REDACTED]. Meanwhile, public debt remained at around 82 per cent of GDP, of which 60 per cent is denominated in foreign currency. In parallel, the current account deficit widened in 2021, and reserves are diminishing [REDACTED].

**The government and unions made some progress on tax and SOE reform, both cornerstones for an IMF programme, but key obstacles remain.** The fiscal situation would require the government to cut its public-sector wage bill, reduce transfers to SOEs and replace subsidies with direct support for those in need, while ensuring adequate and targeted social protection. In March 2021, the government and the UGTT (Tunisia's main trade union) signed an agreement to reform the subsidy system, the tax system and seven SOEs. [REDACTED].

**The country has one of the highest public debt burdens in the region at nearly 80 per cent of GDP (over 95 per cent if publicly-guaranteed debt is counted), much of which is external debt, making debt service increasingly a challenge.** [REDACTED] Key contributors to external financing include revenues from tourism and exports, remittances and donor contributions, although the latter has been held back by concerns about the political situation. [REDACTED].

## 5.2 SENSITIVITY ANALYSIS

[REDACTED]

## 5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

# 6. OTHER KEY CONSIDERATIONS

## 6.1 ENVIRONMENT

Categorised B (ESP 2019) and Low-Medium risk. The purchase of grains and their storage are associated with site-specific environmental and social (E&S) risks, which can be managed and mitigated through the implementation of a targeted action plan. Environmental and Social Due Diligence (ESDD) was undertaken by the Bank based on the review of a previous independent E&S assessment undertaken in 2018, complemented by focused discussions with management representatives from ODC. The ESDD demonstrated the following: the Company is in compliance with regards to their environmental permitting procedures and has a number of fragmented Environmental, Health and Safety, and Social management measures that are in place both at the central and the sites level. Health and Safety Risk Analysis studies are carried out, which consider the risks of auto-ignition, fire and explosion (among others) and the extent of their exposure to employees, the public, and the environment. Control measures are also identified. Accidents and incidents are reported on a regular basis, and corrective measures are identified. However, the system needs to be further formalised and improved, and the EHS resources will also need to be substantially enhanced. The need for the development of a EHSS policy and management system and procedures in line with 9001, 14001 and 18001 have been included in the ESAP, as well as ensuring adequate resources and provisions for EHSS monitoring are in place. The Company is generally in compliance with the EBRD's PR2, and has a set of policies and procedures and an operational internal grievance mechanism procedure. This grievance mechanism will need to be extended for non-direct employees. The ESAP is currently being negotiated with the Client, and will be agreed prior to Board. The PC score is not required as the Project is a sovereign guaranteed loan. Given that the use of proceeds is not for specific capital expenditure and the nature of the Project does not raise red flags in terms of potential

misalignment with the Paris goals, no Paris Alignment assessment has been conducted for the transaction. There is no GET component associated with the Project.

## 6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was undertaken on the Borrower, its shareholders, senior management and other relevant parties. [REDACTED] [T]his Project does not pose unacceptable integrity or reputational risks to the Bank. [REDACTED].

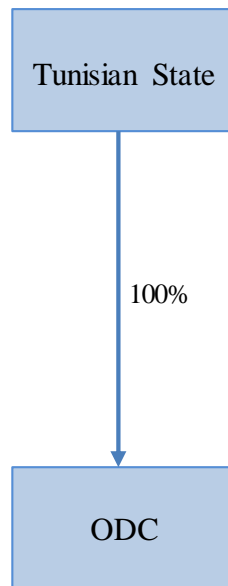
All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project, and the Project files contain the integrity checklists and other required documentation, which have been properly and accurately completed to proceed with the Project.

## 6.3 OTHER ISSUES

*Regulatory Environment and Market Structure:* Annex 9 offers an analysis of the cereals value chain in Tunisia and the regulatory framework that governs it. It highlights the existence of competitiveness-related concerns associated with the Project stemming from the strong state involvement throughout the value chain through the state monopolisation of the international procurement and distribution of cereals (through ODC), the strong support to both domestic production and consumption through price controls and subsidies, as well as the control over domestic trade and downstream activities. However, these are assessed alongside the expected long-term transition benefits of the Project and can be considered mitigated by the presence of an accompanying policy dialogue underpinned by TC support aimed to realise corporate-level improvements and pave the way for sector-wide reform with a view to greater role of the private sector.

## ANNEXES TO OPERATION REPORT

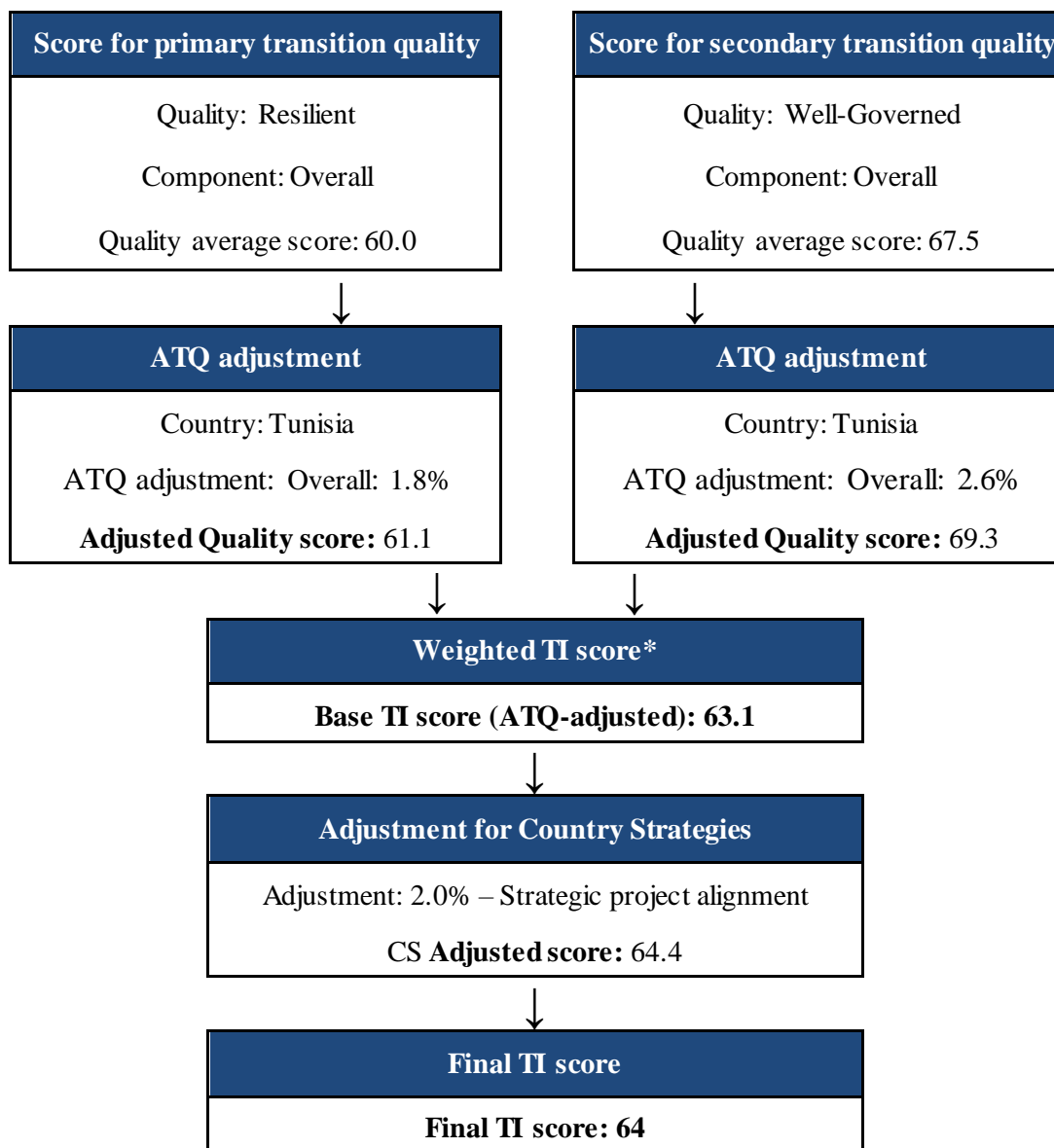
|          |   |
|----------|---|
| ANNEX 1  | Shareholding Structure  |
| ANNEX 2  | Transition Impact Scoring Chart                                   |
| ANNEX 3  | Historical Financial Statements                                   |
| ANNEX 4  | Sovereign Macroeconomic Analysis                                  |
| ANNEX 5  | Sector and Corporate Reform Roadmap (SC2R)                        |
| ANNEX 6  | Technical Assistance Overview                                     |
| ANNEX 7  | Additional Market Overview  |
| ANNEX 8  | Project Implementation  |
| ANNEX 9  | Cereals value chain: Regulatory Environment and Market Assessment |
| ANNEX 10 | TC SSF Fiche  |

**ANNEX 1 – SHAREHOLDING STRUCTURE**

Domiciliation annex is not required for the proposed Project under the Bank's Domiciliation Policy.



## ANNEX 2 – TRANSITION IMPACT SCORING CHART



\*The Primary Quality score is weighted 75 per cent for the calculation of the Base TI Score. The Secondary Quality is weighted 25 per cent.

## ANNEX 3 – HISTORICAL FINANCIAL STATEMENTS

[REDACTED]

## ANNEX 4 – SOVEREIGN MACROECONOMIC ANALYSIS

### 1. Macroeconomic context

[REDACTED]

**The recovery in Tunisia was moderate in 2021.** GDP grew by 3.5 per cent, driven by the rebound in manufacturing, mining and trade, but tourism and services continued to be held back by Covid-19 restrictions (for most of the year) and agriculture (and agri-foods industries) contracted. In the first quarter of 2022, growth was 2.4 per cent year-on-year, benefitting from the normalisation of activity in the mining sector and the rebound in tourism, while manufacturing remained subdued and construction contracted. Inflation remained quite elevated by regional standards, at 7.1 per cent year-on-year in the first four months of 2022, driven by a reduction in subsidies and base effects, along with the impact of the war on Ukraine on international food and energy prices. Meanwhile, the unemployment rate declined but remained high at 16.1 per cent in the first quarter of 2022 and was higher than average for women (20.9 per cent) and youth (38.5 per cent).

**The fiscal deficit improved but debt remained high.** In 2021, the fiscal deficit narrowed to 7.7 per cent of GDP on the back of an increase in revenues, mainly indirect taxes, despite an increase in public investment. The public-sector wage bill, at close to 16 per cent of GDP [REDACTED]. Meanwhile, public debt remained around 82 per cent of GDP, of which 60 per cent is denominated in foreign currency.

**The current account deficit widened in 2021, and reserves are diminishing.** The change in the current account from 5.9 per cent of GDP in 2020 to 6.2 per cent in 2021 came on the back of the widening of the foreign trade deficit, reflecting the increase in imports, despite the increase in exports and remittances. Meanwhile, tourist arrivals doubled year-on-year in the first four months of 2022. Moreover, reserves remained low at USD 8.2 billion, covering just over four months of imports. In February and October Moody's downgraded Tunisia's credit rating to B3, then to Caa1, maintaining the negative outlook, while in July 2021 and March 2022, Fitch downgraded it to 'B-' then to 'CCC'. Both agencies cited heightened fiscal and external liquidity risks and public discourse increasingly includes speculation about a sovereign default. .

[REDACTED] The war on Ukraine and the rise in global prices (notably oil and wheat) will hit both households and the public budget, the latter because of government subsidies. [REDACTED]

### 2. Main macroeconomic indicators (%):

|  | 2017 | 2018  | 2019 | 2020 | 2021 |
|--|------|-------|------|------|------|
| <b>GDP growth</b>                        | 2.2  | 2.5   | 1.5  | -9.3 | 3.5  |
| <b>Inflation (average)</b>               | 5.3  | 7.3   | 6.7  | 5.6  | 5.7  |
| <b>Government balance/GDP</b>            | -5.6 | -4.5  | -3.3 | -9.7 | -7.7 |
| <b>Current account balance/GDP</b>       | -9.7 | -10.4 | -7.8 | -5.9 | -6.2 |
| <b>Net FDI/GDP [neg. sign = inflows]</b> | -1.9 | -2.3  | -1.9 | -1.4 | -1.1 |
| <b>Public debt/GDP</b>                   | 77.4 | 80.9  | 91.2 | 98.7 | 82.4 |
| <b>Gross reserves/GDP</b>                | 13.3 | 12.2  | 17.8 | 21.4 | 18.6 |
| <b>Credit to private sector/GDP</b>      | 75.6 | 74.2  | 70.1 | 75.7 | n.a. |

### 3. Outlook and debt sustainability

[REDACTED]. Prospects for reforms were already poor before the president's move. The fragile coalition in parliament, tensions between key political leaders and entrenched social opposition – including from the Tunisian General Labour Union (UGTT) – to budget cuts complicated efforts to advance fiscal consolidation [REDACTED].

**The government and unions made some progress on tax and SOE reform.** The fiscal situation would require the government to cut its public-sector wage bill, reduce transfers to SOEs and replace subsidies with direct support for the needy, while ensuring adequate and targeted social protection. In March 2021, the government and the UGTT signed an agreement to reform the subsidy system, the tax system and seven SOEs. However, the government committed not to privatise these SOEs, some of which are loss-making. No agreement was reached on cutting the public-sector wage bill – although this would likely be a precondition to an IMF programme.

**Fuel, electricity and gas prices increased.** Fuel prices, which are adjusted automatically in line with market prices, were raised several times in 2021 and 2022. Higher electricity and gas tariffs started to be applied for consumers in May 2022 by STEG. These moves, driven probably by fiscal pressures, will have positive effects on the government's subsidy bill, which is nonetheless incurring additional burdens (estimated at TND 4 billion, USD 1.3 billion) amidst increasing international oil and food prices.

**The economic recovery and regularisation of the law relating to foreign exchange offences has been adopted.** The decision by parliament in July 2021 entails about 20 measures, including revaluing company fixed assets for tax purposes, deducting reinvested profits and income from the capital of fully exporting companies, a lower tax burden on housing built by property developers and regularising customs offences. It also allows people, for the first time, to open foreign currency accounts, permits companies and individuals to agree to a financial settlement for foreign exchange violations, and enables firms to easily access loans and draw money from the black market. The law has yet to be promulgated by the president to enter into force. However, the BCT has advised the president against doing so, stating that it includes measures that are likely to hamper the sound conduct of monetary policy and affect Tunisia's international commitments and ability to continue to mobilise necessary external funds.

**The country has one of the highest public debt burdens in the region at nearly 80 per cent of GDP (over 95 per cent if publicly-guaranteed debt is counted), much of which is external debt, making debt service increasingly a challenge.**[REDACTED]. Key contributors to external financing include revenues from tourism and exports, remittances and donor contributions, although the latter has been held back by concerns about the political situation. [REDACTED].

## ANNEX 5 – SECTOR AND CORPORATE REFORM ROADMAP

|  | Actions                          | Deliverables  | Responsible parties | Due dates  |
|--|----------------------------------|---|---------------------|------------|
|  | Establishment of a working group | Creation of a working group chaired by the Ministry of Agriculture (“MAHRF”), with representatives of each stakeholder (including Presidency of the Government and key ministries, ODC, representatives from the private sector, and other relevant international organisations (such as FAO, EBRD, IMF, and other IFIs) necessary for the implementation of the SC2R (Part II only). This committee will be in charge of supervising and monitoring the implementation of the SC2R (part II only). | Government          | [REDACTED] |
| <b>Part I - ODC CORPORATE REFORM</b>   |                                  |   |                     |            |
| <b>I-A – International procurement practice</b>  |                                  |   |                     |            |
| <i>Objective: Strengthening ODC's wheat and barley international procurement practices and improve efficiency and transparency</i> |                                  |   |                     |            |
| ODC with consultant's support, if necessary, will improve procurement practices, rules, function and capacity                      |                                  | Setting up of a Project Implementation Unit (“PIU”)   | ODC                 | [REDACTED] |
|  |                                  | [REDACTED][W]ritten request letter or email sent to the EBRD by which ODC confirms and validates: (i) the terms of references (ToRs) for the ACBC, and (ii) that the Bank selects and contracts the ACBC in accordance with the Bank's procurement rules, so as to enable EBRD to sign the consultancy contract for the ACBC [REDACTED].  | ODC                 | [REDACTED] |

|  | Actions  | Deliverables   | Responsible parties | Due dates  |
|--|--|--|---------------------|------------|
|  |  | [REDACTED] [A]fter submission of a report by the ACBC to ODC, validation of new procurement practices and/or rules and overall improved ODC procurement function (as deemed necessary by ACBC and in compliance with Tunisian law and regulations).  | ODC                 | [REDACTED] |
|  |  | After the validation described above, adoption of these new procurement practices and/or rules and overall improved ODC procurement function.  | ODC                 | [REDACTED] |
| <b>I-B – Corporate-level improvements</b>  |  |  |                     |            |
| <i>Objective: In-depth assessment of ODC's corporate governance, internal organisation, overall practices (beyond procurement) and management procedures, with identification of relevant gaps vis-à-vis international best practices, development of a satisfactory corporate action plan (the "Corporate Action Plan"), and adoption of new standards as set out in Corporate Action Plan.</i> |  |  |                     |            |
|  | ODC with consultant's support will tackle improvements in the following areas:<br><b>Corporate governance and internal organisation:</b> roles, responsibilities, reporting and accountability lines of management bodies and board of directors; division of authority/delegation between the | [REDACTED][W]ritten request letter or email sent to the EBRD by which ODC confirms and validates: (i) the terms of references (ToRs) for the ACBC, and (ii) that the Bank selects and contracts the ACBC in accordance with the Bank's procurement rules, so as to enable EBRD to sign the consultancy contract for the ACBC [REDACTED]. | ODC                 | [REDACTED] |
|  |  | Submission of a report by ACBC to ODC describing the assessments and gaps ' identification, and the formulations as set out in a Corporate Action Plan   | ACBC                | [REDACTED] |

|  | Actions   | Deliverables  | Responsible parties | Due dates  |
|--|---|---|---------------------|------------|
|  | <p>various bodies/functions of ODC; existing code of conduct; compliance, monitoring and disclosure functions; transparency; adequacy of the structure for control systems, operational autonomy and efficient and agile decision-making.</p> <p><b>Financial accounting and reporting:</b> current practices and transition to IFRS.</p> <p><b>Risk management function:</b> current risk management practices and potential development of a risk management framework including on commodity and FX risk management.</p> <p><b>Digitalisation of ODC operations:</b> Current adoption of digital technologies and practices and opportunities for digitalisation, including on inventory management.</p> <p>The recommendations resulting from the above assessments will be set out in a Corporate Action Plan, developed by ODC with the assistance of the ACBC.</p> | Discussion and validation of the new standards as set out in the Corporate Action Plan, after ODC's board of directors approval | ODC                 | [REDACTED] |

|  | Actions | Deliverables  | Responsible parties | Due dates  |
|--|---------|---|---------------------|------------|
|  |         | Implementation of the recommendations of the validated Corporate Action Plan for improving ODC’s corporate governance, financial reporting, risk management and digitalisation.   | ODC                 | [REDACTED] |
| Gender equality: Improvement of ODC gender practices to bring them in line with international best practices   |         | [REDACTED] [W]ritten request letter or email sent to the EBRD by which ODC confirms and validates: (i) the terms of references (ToRs) for the ACBC, and (ii) that the Bank selects and contracts the ACBC in accordance with the Bank’s procurement rules, so as to enable EBRD to sign the consultancy contract for the ACBC [REDACTED]. | ODC                 | [REDACTED] |
|  |         | Submission of a report by ACBC to ODC describing the assessments and gaps identification, and the formulations for the improvement of ODC gender practices  | ACBC                | [REDACTED] |
|  |         | Discussion and validation of the new gender practices including gender-based violence and harassment (GBVH) reporting and complaint mechanisms; explicit equal opportunities policies, all in line with OECD international standards and best practices   | ODC                 | [REDACTED] |
|  |         | ODC introduces gender-based violence and harassment (GBVH) reporting and complaint mechanisms; explicit equal opportunities policies; and selects a gender focal point in its Governance Unit (attached to the CEO Office), all in line with OECD international standards and best practices.   | ODC                 | [REDACTED] |
| I-C - Tailored capacity building activities  |         |   |                     |            |
| Objective: provide trainings activities to address any identified capacity gaps.   |         |   |                     |            |
| ODC with consultant’s support will have to address capacity gaps and train relevant ODC staff for implementation of the recommendations in relation to components I-A and I-B above. |         | [REDACTED] [W]ritten request letter or email sent to the EBRD by which ODC confirms and validates: (i) the terms of references (ToRs) for the ACBC, and (ii) that the Bank selects and contracts the ACBC in accordance with the Bank’s procurement rules, so as to enable EBRD to sign the consultancy contract for the ACBC [REDACTED]. | ODC                 | [REDACTED] |
|  |         |   |                     |            |

|   | Actions | Deliverables  | Responsible parties                        | Due dates  |
|---|---------|---|--|------------|
|   |         | Within 12 weeks after submission of a report by the ACBC to ODC, validation of the capacity building programs.  | ODC  | [REDACTED] |
|   |         | After the validation described above, launch capacity building programs for ODC staff.  | ODC  | [REDACTED] |
| <b>Part II - Grain sector reform to address structural weaknesses and achieving greater role of the private sector</b>  |         |   |  |            |
| <b>II-A - Assessment of structural weaknesses in the grain sector and capacity to reform</b>  |         |   |  |            |
| <i>Objective: develop recommendations in order to support stakeholders of the grain value chain to reform the sector and address weaknesses.</i>  |         |   |  |            |
| <b><i>In-depth assessment of the grain sector</i></b> (building on existing studies to the extent possible) by the Sector Reform Consultant to identify structural weaknesses, identify opportunities for reform of the market structure and role of ODC, as well as assessing the capacity to deliver on potential reforms.<br><b><i>Development of a set of recommendations for progressively increasing private sector participation</i></b> in the grain sector based on the assessment conducted (e.g. progressive outsourcing of procurement of wheat and barley to private sector operators and gradual shift of ODC's role in the grain sector from operator to regulator) to serve as an input to the multi-stakeholder working group ("Working Group"). |         | Written request letter or email sent to the EBRD by which ODC and the Government: (i) validate the terms of reference as reviewed and validated by the Working Group, and (ii) acknowledge EBRD's contracting of the Sector Reform Consultant so as to enable EBRD to sign the consultancy contract for the Sector Reform Consultant (or otherwise approve the cooperation arrangement under which the Sector Reform Consultant will be involved) [REDACTED]. | ODC / Government (Ministry of Agriculture) | [REDACTED] |
|   |         | Submission by the Sector Reform Consultant of the in-depth assessment report and recommendations to the Working Group   | Sector Reform Consultant                   | [REDACTED] |
|   |         | Discuss findings of the in-depth assessment and recommendations for progressively increasing private sector participation.  | Working Group                              | [REDACTED] |
|   |         | Sector Reform Consultant to draft (with inputs from Working Group and relevant government authorities) a blueprint of a potential long-term sector reform in the grain sector (clear actions, legislative/regulatory/policy changes required, stakeholders responsible, timelines for implementation) based on the above mentioned findings and recommendations of the Working Group.   | Sector Reform Consultant                   | [REDACTED] |



|  | Actions  | Deliverables  | Responsible parties | Due dates  |
|--|--|---|---------------------|------------|
|  | <i>Drafting a blueprint of a potential long-term sector reform in the grain sector</i> (clear actions, legislative/regulatory/policy changes required, stakeholders responsible, timelines for implementation), with the assistance of consultants, to implement the recommendations of the Working Group. |   |                     |            |
|  |  | Working Group to validate the blueprint   | Working Group       | [REDACTED] |
|  |  | Implementation of the relevant reforms.   | Government          | [REDACTED] |
|  |  | The aim of these reforms is to achieve a progressive and substantial [REDACTED] transfer of wheat and barley import activity from ODC to private sector operators [REDACTED]. |                     |            |

## ANNEX 6 – TECHNICAL COOPERATION PACKAGE OVERVIEW

The following table provides an overview of the TC Project that will accompany the Investment, entailing advisory and capacity building for improvements and long-term reforms both at the level of ODC and in the Tunisian grain sector. The expected timeline for the implementation of the assignments is three years. The TC project will be the primary vehicle for delivering the Well-Governed transition quality objectives associated with the Investment.

| Task   | Scope of work  | Expected cost |
|--|--|---------------|
| <b>Assignment 1:<br/>Commodities<br/>Market Expert</b> | <p>The Commodities and Market Expert will support the Bank and the Client in the actual procurement of grain from the international market during the Project implementation.</p> <p>The scope of work includes:</p> <ul style="list-style-type: none"> <li>• Advising on the grains market and the most appropriate procedures;</li> <li>• Advising on the procurement plan, the number of contracts and the timeline;</li> <li>• Preparing the procurement documents (PD) to be used for the project;</li> <li>• Reviewing the PD, in particular the requirements and any provision specific to commodities procurement;</li> <li>• Reviewing the evaluation reports for each contract;</li> <li>• Verifying the completion of all conditions precedent to disbursement related to the contracts;</li> <li>• Providing advice on the grains market as required by the Bank so that it can make disbursements in accordance with the loan agreement.</li> </ul>   | [REDACTED]    |
| <b>Assignment 2:<br/>Project<br/>Coordinator</b>       | <p>The Project Coordinator will ensure the strategic implementation, monitoring and reporting of the entire TC Project implementation, as well as working closely with ODC to support the realisation of the expected outcomes.</p> <p>The scope of work includes:</p> <ul style="list-style-type: none"> <li>• Increasing ODC's engagement and outreach to the implementing partners;</li> <li>• Organising and coordinating events and meetings;</li> <li>• Liaising and coordinating with all implementing partners, including EBRD, ODC, FAO and other consultants and strategic stakeholders for information sharing and implementation updates;</li> <li>• Acting as a channel of communication and ensuring strategic dissemination of information;</li> <li>• Developing a monitoring and tracking tool for activities and deliverables of the assignments across implementing partners;</li> <li>• Reporting on all activities on a regular basis to the EBRD;</li> <li>• Handling all necessary logistics and administrative tasks;</li> </ul> | [REDACTED]    |

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PUBLIC

## ANNEX 7 – ADDITIONAL MARKET OVERVIEW

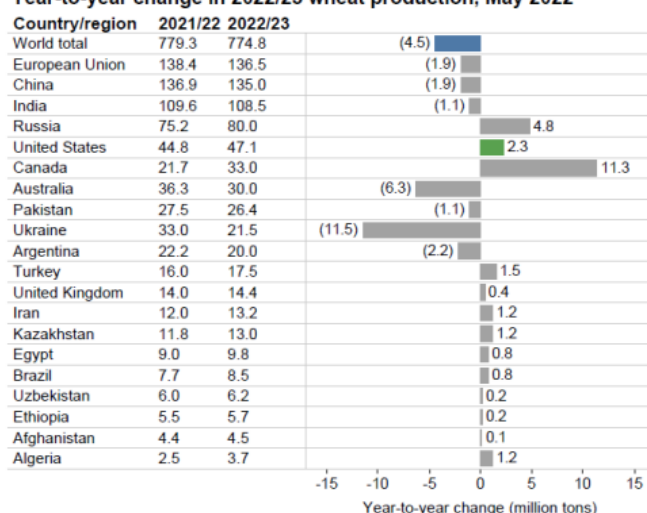
### Global Market

#### Wheat market<sup>13</sup>:

For 2022/2023, Global production of Wheat is forecast at 775m tonnes, down 4m tonnes from the previous year. The largest cut to production is in Ukraine, which is projected to have a crop one-third smaller than the prior year with reduced harvested area and lower yields due to the ongoing war with Russia. Australia, and India are also expecting a smaller crop. The largest year-over-year growth in production is expected in Canada, where both the production area and yield are forecasted higher on improved weather following last year's widespread drought. Not to mention supply disruption in Russia because of international sanctions affecting payments, and logistical challenges in Ukraine affecting export capacity.

The winter wheat crop in Ukraine is planted from early September to mid-November and accounts for approximately 97% of Ukraine's total wheat production. This crop is already showing below trend conditions as the weather last autumn was dry. The Russia-Ukraine war has increased the risk surrounding the harvest of the winter wheat, resulting in higher abandonment expected in conflict areas (area harvested projected down 1.6m ha from 2021/22 to 5.9m ha).

Year-to-year change in 2022/23 wheat production, May 2022



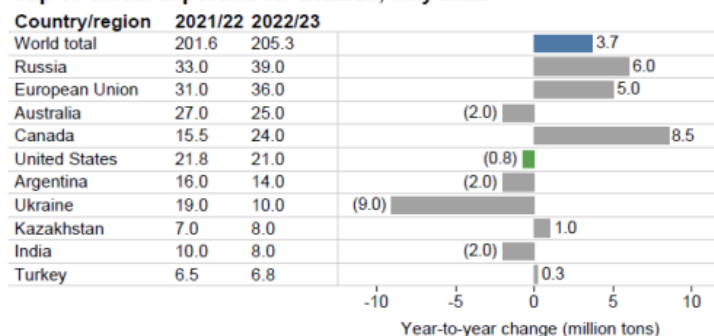
Note: Change compared to the current 2021/22 estimate.

Source: USDA, Economic Research Service; USDA, Foreign Agricultural Service, Production, Supply, and Distribution database.

Global trade is forecast at a record (trade year exports for 2022/23 are projected at a record 205.3m tons, up 3.7m tons from 2021/22), with imports rising across both in North Africa and Sub-Saharan Africa as the population, consumption, and storage expand but local production remains relatively flat.

<sup>13</sup> USDA / Grain : World Markets and Trade

### Top 10 wheat exporters for 2022/23, May 2022



Note: Change compared to the current 2021/22 estimate; based on trade year (July/June) exports.  
Source: USDA, Economic Research Service; USDA, Foreign Agricultural Service, *Production, Supply, and Distribution* database.

Despite international sanctions, Russia is projected to be the top exporter in 2022/23 at 39.0m tons as prices are more competitive compared to other major exporters.

Russia and Ukraine have in recent years accounted for approximately one-quarter of global wheat exports. Exports from Ukraine have been interrupted due to the closure of Ukrainian ports on the Black Sea, which account for about 90% of Ukraine's wheat exports. Limited quantities of wheat exports have started taking place since early March 2022 through rail and road corridors. While precise estimates of such exports are not available, perhaps as much as half of Ukraine's exportable wheat could eventually be exported overland (although at a greater cost than shipping).

Disruptions to wheat exports from Ukraine have already affected several importing countries, especially in the Middle East and North Africa. As a result, several countries have introduced (or announced) trade policy measures that either reduce or ban wheat exports.

Global wheat consumption is projected at 788 million tons in 2022/23, slightly lower by 3 million from last year mainly because of less animal feed wheat consumption as farmers are seeking alternative feed because of high wheat prices.

With global consumption once again exceeding production, global wheat stocks are projected to decline further in 2022/23. Combined stocks for the top eight global exporters are projected down from 2021/22.

### Barley market<sup>14</sup>:

For 2022/2023, the global barley outlook is a decline in trade despite higher production. Production is forecast to grow as crops for Canada, Russia, and Turkey recover, though production is expected to be smaller in Australia and Ukraine. Consumption for feed use is expected to fall marginally, but food use is forecast to grow. Global trade is expected to shrink due to reduced exports from Australia, Russia, and Ukraine.

### Wheat and barley price trends:

The current conflict in Ukraine and disruptions in the supply chain have led to a historic rise in grain prices more than doubling y-o-y. In fact, the price per ton of durum wheat has risen up to EUR 515 (vs EUR 270/ton in June 2021)<sup>15</sup>, while the price of soft wheat per ton has risen up to EUR 430 (vs EUR 199/ton in June 2021) per ton in recent weeks

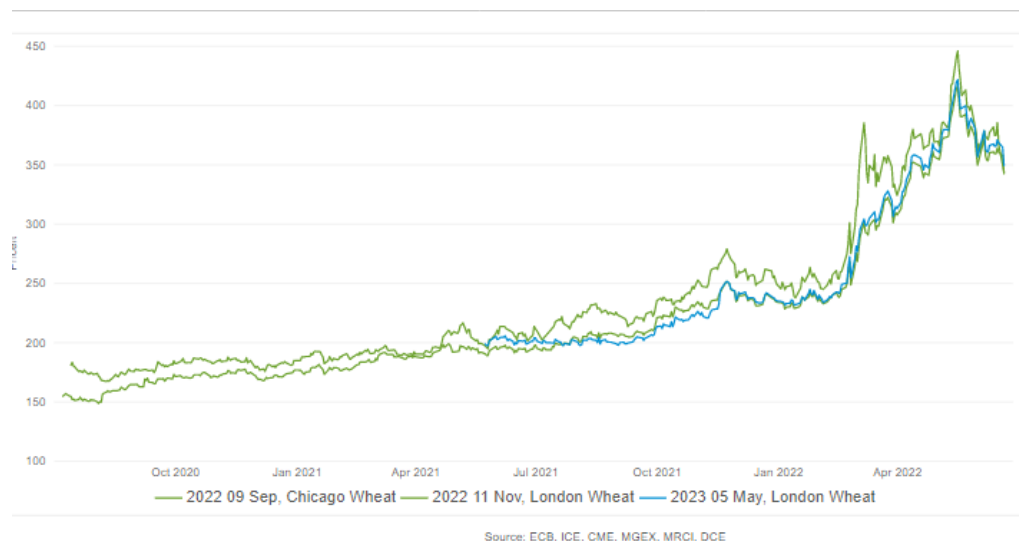
<sup>14</sup> USDA / Grain : World Markets and Trade

<sup>15</sup> [Prix du blé dur - Cotations et analyses - Marché physique \(terre-net.fr\)](https://www.terre-net.fr/marche/prix-du-blé-dur-cotations-et-analyses)

before settling recently at EUR 340/ton and fodder barley reached EUR 405/ton (vs EUR 203/ton in June 2021)<sup>16</sup>.

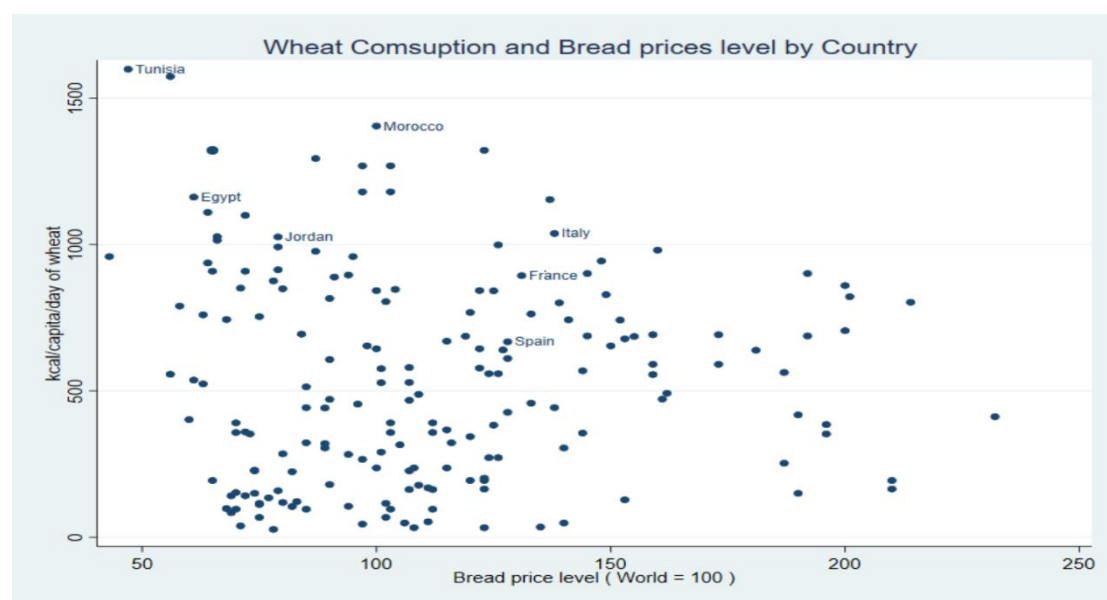
### **Wheat futures price (EUR/ton)<sup>17</sup>:**

After peaking at ca. EUR 430 per ton in May 2022, wheat futures are currently trading for September and November 2022 deliveries at currently EUR 340 per ton.



### **Tunisian Market:**

Tunisia is a large consumer of grains with a national average of 184Kg/person/year<sup>18</sup> and accounts in average 13% of household food spending or about 4% of total spending.



<sup>16</sup> [Prix du blé dur - Cotations et analyses - Marché physique \(terre-net.fr\)](https://www.terre-net.fr/marche/prix-du-bled-dur-cotations-et-analyses)

<sup>17</sup> <https://tradingeconomics.com/commodity/wheat> ; 1 bushel = 27.216kg

<sup>18</sup> INS (2015)

Total wheat and barley consumption is around 4.4m tonnes per year and this is expected to remain unchanged in the medium term. In comparison, Tunisia is able to produce only one-third of its consumption needs during the last few years because of unfavourable agro-climatic conditions. In 2021, the country imported 2.6m<sup>19</sup> tons of wheat and barley. Tunisia has historically imported wheat from Ukraine, Russia, the EU, and Canada. Estimated market share<sup>20</sup>, based on a five year average, show the following: Ukraine (48%), Russia (8%), the EU (34%) and Canada (8%).

Grain farming occupies nearly 1.2-1.5 million hectares<sup>21</sup> per year i.e. 30% of the useful agricultural area of which 10% benefit from irrigation in case of drought. As a result, yields are highly dependent on rainfall.

Due to the conflict on Ukraine, Tunisia is facing (i) difficulties in grain supply (competition with very large countries) and (ii) ODC's total expected import bill in 2022 (calendar year) is forecast to be EUR 1.04 bn out of which EUR 800m yet to be funded <sup>22</sup>.

For 2022/2023<sup>23</sup>, local wheat production is expected at 1.1m tons (mainly durum wheat) and 420K tons for barley almost flat compared to 2021/2022. Despite good weather conditions, farmers seeded smaller areas due to Tunisia's general economic uncertainty and farmers' unwillingness to take on financial risks. In addition, current global disruption on fertilizers' market will most likely affect local production. In 2022/23, Tunisia is expected to import 3.05m tons of wheat and barley as further detailed in the following table (source: USDA):

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<sup>19</sup> Source: ODC

<sup>20</sup> USDA / Grain : World Markets and Trade

<sup>21</sup> Onagri

<sup>22</sup> ODC

<sup>23</sup> USDA report



**Table 4: Wheat Production, Supply and Distribution**

| Wheat<br>Market Year Begins<br>Tunisia | 2020/2021     |          | 2021/2022     |          | 2022/2023     |          |
|--|---------------|----------|---------------|----------|---------------|----------|
|  | Jul 2020      |          | Jul 2021      |          | Jul 2022      |          |
|  | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Area Harvested (1000 HA)               | 519           | 519      | 540           | 522      | 0             | 510      |
| Beginning Stocks (1000 MT)             | 941           | 941      | 727           | 727      | 0             | 648      |
| Production (1000 MT)                   | 1043          | 1043     | 1250          | 1191     | 0             | 1100     |
| MY Imports (1000 MT)                   | 1771          | 1771     | 1800          | 1800     | 0             | 2100     |
| TY Imports (1000 MT)                   | 1771          | 1771     | 1800          | 1800     | 0             | 2100     |
| TY Imp. from U.S. (1000 MT)            | 46            | 46       | 0             | 0        | 0             | 0        |
| Total Supply (1000 MT)                 | 3755          | 3755     | 3777          | 3718     | 0             | 3848     |
| MY Exports (1000 MT)                   | 28            | 28       | 20            | 20       | 0             | 20       |
| TY Exports (1000 MT)                   | 28            | 28       | 20            | 20       | 0             | 20       |
| Feed and Residual (1000 MT)            | 100           | 100      | 100           | 100      | 0             | 100      |
| FSI Consumption (1000 MT)              | 2900          | 2900     | 2950          | 2950     | 0             | 3000     |
| Total Consumption (1000 MT)            | 3000          | 3000     | 3050          | 3050     | 0             | 3100     |
| Ending Stocks (1000 MT)                | 727           | 727      | 707           | 648      | 0             | 728      |
| Total Distribution (1000 MT)           | 3755          | 3755     | 3777          | 3718     | 0             | 3848     |
| Yield (MT/HA)                          | 2.0096        | 2.0096   | 2.3148        | 2.2816   | 0             | 2.1569   |

MY = Marketing Year, begins with the month listed at the top of each column

TY = Trade Year, which for Wheat begins in July for all countries. TY 2022/2023 = July 2022 - June 2023

**Table 5: Barley Production, Supply and Distribution**

| Barley<br>Market Year Begins<br>Tunisia | 2020/2021     |          | 2021/2022     |          | 2022/2023     |          |
|---|---------------|----------|---------------|----------|---------------|----------|
|   | Jul 2020      |          | Jul 2021      |          | Jul 2022      |          |
|   | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Area Harvested (1000 HA)                | 363           | 363      | 367           | 279      | 0             | 300      |
| Beginning Stocks (1000 MT)              | 274           | 274      | 168           | 168      | 0             | 148      |
| Production (1000 MT)                    | 465           | 465      | 650           | 430      | 0             | 420      |
| MY Imports (1000 MT)                    | 909           | 909      | 700           | 880      | 0             | 950      |
| TY Imports (1000 MT)                    | 950           | 950      | 700           | 880      | 0             | 950      |
| TY Imp. from U.S. (1000 MT)             | 0             | 0        | 0             | 0        | 0             | 0        |
| Total Supply (1000 MT)                  | 1648          | 1648     | 1518          | 1478     | 0             | 1518     |
| MY Exports (1000 MT)                    | 0             | 0        | 0             | 0        | 0             | 0        |
| TY Exports (1000 MT)                    | 0             | 0        | 0             | 0        | 0             | 0        |
| Feed and Residual (1000 MT)             | 1400          | 1400     | 1250          | 1250     | 0             | 1275     |
| FSI Consumption (1000 MT)               | 80            | 80       | 80            | 80       | 0             | 80       |
| Total Consumption (1000 MT)             | 1480          | 1480     | 1330          | 1330     | 0             | 1355     |
| Ending Stocks (1000 MT)                 | 168           | 168      | 188           | 148      | 0             | 163      |
| Total Distribution (1000 MT)            | 1648          | 1648     | 1518          | 1478     | 0             | 1518     |
| Yield (MT/HA)                           | 1.281         | 1.281    | 1.7711        | 1.5412   | 0             | 1.4000   |

MY = Marketing Year, begins with the month listed at the top of each column

TY = Trade Year, which for Barley begins in October for all countries. TY 2022/2023 = October 2022 - September 2023

**Regulatory snapshot:**

*Grain Imports:* ODC has a monopoly on imports of wheat, and barley. It buys the grains on international markets depending on the anticipations for Tunisian grain production and movements in international grain prices. The purchase is made through international tenders to 38 (o/w 12 active) international traders that are pre-registered with ODC. Since 2016, there are no longer any customs duties on wheat, but the customs duty of 36 per cent on barley is maintained. The import of corn, soya, and alfalfa, has been liberalized in 1990s and is completely handled by private sector operators. Private millers may import wheat under a temporary admission regime ("Perfectionnement actif") but are required to re-export the finished product after milling occurs in Tunisia. Exports of Tunisian wheat products require an export license. ODC sells imported (and local) grains to flourmills at price lower than ODC purchase price. The gap between purchase price and sale price is covered by subsidies paid by the Tunisian government. Tunisia subsidizes wheat consumption, guaranteeing the entire population access to wheat flour, semolina, and bread at prices below market rate. Bread prices are a sensitive issue, and as a result, wheat subsidies have remained unchanged despite the extreme burden that they place on the state budget.



*Local production:* ODC plays also a critical role in the domestic grain production and hence in the local agricultural architecture. Since 2005, local collection of grains is ensured by 14 private companies (including 2 cooperatives) under the direct supervision of the ODC. The collectors buy wheat on behalf of ODC at price of wheat set by government decree which is usually below world prices (70 per cent of world price in 2021). These private collection companies have ODC as a single customer except when authorized by ODC to sell the grains directly to flourmills. Local production ensures on average 1/3 of local consumption. Tunisia continues to implement a strategy to boost its cereal production. The government's goal is to reach an average annual production of 3m tons for grains of which 1.7m tons is durum wheat. To help reach this goal, the government assisted by the ODC implemented several measures that included: (i) maintaining the farm-gate price policy for wheat and barley at a relatively high level to encourage local production; (ii) increasing farmers' use of certified seeds by maintaining price subsidies for certified varieties of cereal seeds; (iii) subsidising 50 percent of agricultural machinery costs and 40-50 percent of irrigation equipment costs; (iv) subsidising irrigation water USD 0.07/m<sup>3</sup> (32 per cent of the real cost) to encourage increasing irrigated wheat area to 120K ha, and (v) providing technical assistance to irrigated wheat farmers to increase yields.

## ANNEX 8 – PROJECT IMPLEMENTATION

### Procurement classification – *Public sovereign*

#### Project risk assessment:

[REDACTED]. The Executing Agency for the project will be ODC which will be fully responsible for all procurement and implementation activities under the project. Although ODC has substantial experience in the purchase of grain, this is their first EBRD funded project. By applying PPAD's developed toolkit, the client's risk on procurement has been assessed as High, and mitigations measures will be implemented. All categories i.e. legal framework, organisation of procurement function, support/control systems, staffing, record keeping, procurement planning, procurement cycle, general assessment of the client, and project risk have been assessed.

*Contracts risk assessment: Moderate*

#### Project implementation arrangements:

[REDACTED] As the client has no previous experience with the EBRD, it is suggested to provide appropriate procurement support to the PIU through the Procurement Panel or TCs should there be available funding. In addition an independent Grains Market expert will be recruited by the Bank to provide advice and support to fine tune the procurement plan as well as draft the project ad hoc standard tender documents to be used.

#### Procurement arrangements:

The proposed operation is classified as public sector for procurement purposes. All contracts for grain to be financed under the project shall be procured in accordance with the Bank's PPR and specifically articles 3.25 and 3.57 which provide for the application of special competitive procedures in the procurement of commodities. *These procurement procedures shall be similar to an open competitive procedure, modified as necessary to reflect internationally established market practices, and shall be acceptable to the Bank. To mitigate the risks associated with the Bank's lack of experience in the procurement of grain, and to facilitate the preparation of the procurement, in particular specific tender documents, and implementation aspects of the project,* the Bank will engage with an independent industry expert to assist with the development of the project specific procurement procedures and procurement documentation. This approach will ensure that these aspects are in line with internationally established market practices and fit for purpose in the current market conditions. All consultancy contracts will be procured in line with the requirements of the Bank's PPR.

The commodities, financed from the Bank's loan, will be procured as per restricted tendering procedure following an open prequalification procedure in accordance with the requirements of the Bank's Procurement Policies and Rules (PPR) for public sector operations. The Client will submit customized tender documents for Bank approval, to be used for all grains tender of the project while the Bank standard prequalification

documents will be used to select the suppliers. All contracts shall incorporate the Bank's standard provisions covering prohibited practices.

All procedures are submitted to prior review and selective review.

It will be the PIU's responsibility to coordinate, manage, monitor and evaluate all aspects of the EBRD Project implementation [REDACTED].

All procured commodities will be subject to a pre-shipment independent inspection.

Based on the specific nature of the commodities market, the use of EBRD Client e-Procurement Platform (ECEPP) has been considered as not appropriate and it will not be used to procure the Commodities. Still, ECEPP will be used to conduct the open prequalification of the suppliers. Once the PIU will be appointed and the Consultants will have joined, the Bank will provide an ECEPP training to the Client, in particular the members who will be conducting the procurement processes. [REDACTED].

## **ANNEX 9 – CEREALS VALUE CHAIN: REGULATORY ENVIRONMENT and MARKET ASSESSMENT**

### **Introduction**

Wheat and other cereals have a strategic importance for the food security in various economies, including Tunisia; being at the core of the local diet, they represent a large share of the calorie intake of the population.

The following analysis aims to outline the regulatory environment and market structure of the grain sector in Tunisia, highlighting the competitiveness challenges entrenched in it and associated with the strong state involvement in light of the strategic nature of the sector. ODC serves as the operating arm of the MAHRF and controls the procurement, storage, and distribution of wheat and barley through a monopolistic market structure. The state monopoly is also accompanied by the government's regulation through different forms of support to production and consumption of cereals and derivatives, as well as the control over trade and downstream activities.

The competitiveness challenges outlined are assessed alongside the transition impact benefits that the project could deliver, beyond the short-term emergency response to the growing food security crisis, and the measures in place to mitigate the above-mentioned risks. Both are closely linked to the initiation of a policy dialogue with the government and ODC centred on the realisation of enhancements at ODC level and paving the way for a sector-wide reform aimed to promote greater role of the private sector; these may ultimately strengthen in the long-term the resilience of the country and the food system to future shocks.

### **Cereals value chain in Tunisia**

The agricultural sector plays a fundamental role in the Tunisian economy; it corresponds to ca. 8 per cent of GDP, it contributes to ca. 10 per cent of the total export activity from the country and it represents an important source of employment, accounting overall ca. 16 per cent of total employment in the country and ca. 44 per cent of total employment in rural areas<sup>24</sup>. Similar to other SEMED countries, in Tunisia, cereals are at the core of the diet of the population and hence play a strategic role for ensuring food security. It is estimated that cereals correspond to ca. 52 per cent of the calories intake of the local population<sup>25</sup>. The production of cereals employs also a large share of the population living in rural areas; it is estimated to account for ca. 9 per cent of the total employment in the agricultural sector<sup>26</sup>.

In light of the pivotal role of cereals to the preservation of domestic food security, this value chain has traditionally been subject to strong state control across the SEMED region, with limited role of the private sector. In Tunisia, ODC is the operating arm of the Ministry of Agriculture and it plays both a strategic and operational role in the sector. It monopolises the procurement of wheat and barley through both domestic purchase and importation from international markets, as well as controlling the storage

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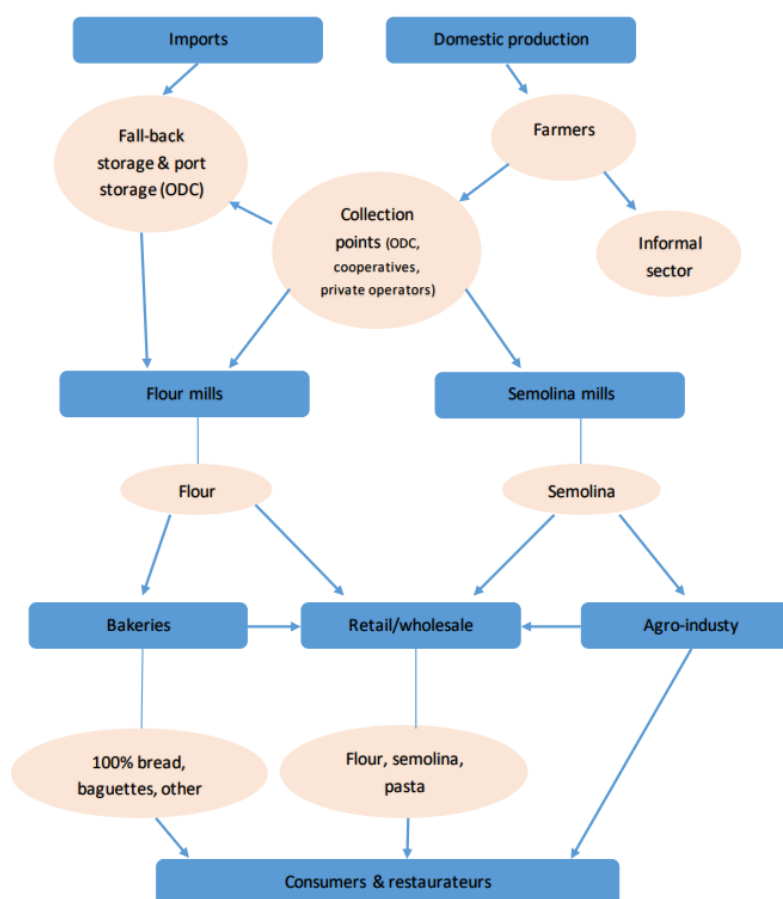
<sup>24</sup> FAO, Analyse de la filière céréalière en Tunisie et identification des principaux points de dysfonctionnement 'à l'origine des pertes, 2018

<sup>25</sup> Ibid.

<sup>26</sup> Ibid.

and the sale to local private sector operators (millers and livestock feed producers) for further processing. ODC's local collection and distribution activities are ensured by central and regional structures across Tunisia. Downstream activities tend to be instead performed by the private sector.

The cereals value chain comprises the following steps: production, procurement, transformation and processing, distribution, and consumption. The following diagram<sup>27</sup> summarises schematically the key activities and players throughout the value chain.



The characteristics, activities, and operators involved at the various levels of the value chain are outlined here:

- **Domestic production:** Cereal-related farming occupies nearly 1.2-1.5 million ha<sup>28</sup> and is concentrated in the northern region of the country. The majority of local producers are smallholders (ca. 63 per cent) with land bank estimated to be lower or equal to 10 ha<sup>29</sup>. Based on data for the period 2012-16, the cereals production is on average composed as follows: ca. 57 per cent durum wheat, 13

<sup>27</sup> Ibid.

<sup>28</sup> Observatoire national de l'agriculture (ONAGRI), INDICATEURS CLÉS DE L'AGRICULTURE TUNISIENNE EN 2020.

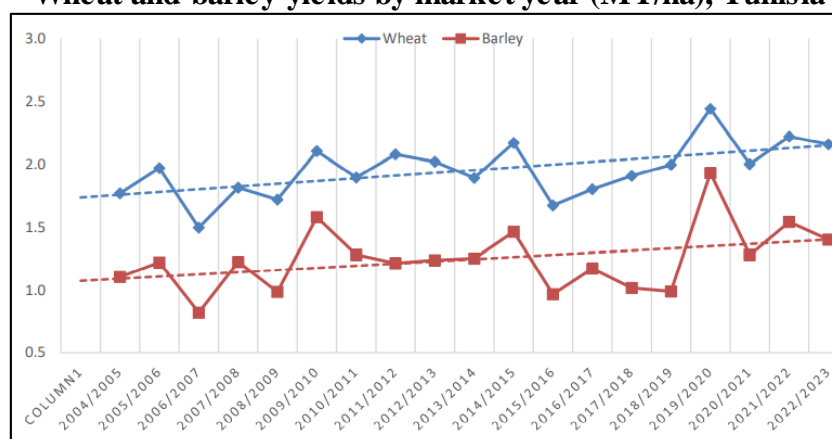
<sup>29</sup> FAO, Analyse de la filière céréalière en Tunisie et identification des principaux points de dysfonctionnement à l'origine des pertes, 2018.

per cent soft wheat and 30 per cent barley<sup>30</sup>. Domestic production is marked by high output volatility and low yields, albeit a slight increase over time, mainly due to climatic conditions and unsophisticated agricultural practices. The following tables and charts display the historical trend of wheat and barley production and yields in Tunisia<sup>31</sup>.

**Wheat and barley production by year, Tunisia**

|                 | MY 17/18     | MY 18/19     | MY 19/20     | MY 20/21     | MY 21/22     | MY 22/23      |
|-----------------|--------------|--------------|--------------|--------------|--------------|---------------|
| <b>Wheat</b>    | <b>1,104</b> | <b>1,070</b> | <b>1,454</b> | <b>1,043</b> | <b>1,191</b> | <b>1,100*</b> |
| - <i>Durum</i>  | 929          | 960          | 1,267        | 959          | 1,071        | 1,010*        |
| - <i>Common</i> | 175          | 110          | 187          | 84           | 120          | 90*           |
| <b>Barley</b>   | <b>399</b>   | <b>310</b>   | <b>912</b>   | <b>465</b>   | <b>430</b>   | <b>420*</b>   |

**Wheat and barley yields by market year (MT/ha), Tunisia**



- **Domestic procurement:** The domestic procurement of cereals is estimated to be in relation to ca. 40-50 per cent of the domestic production, which highlights the importance of self-consumption in rural areas and the problem of post-harvest losses. Since 1990, the government authorised private operators to procure cereals domestically on behalf of the ODC, alongside ODC domestic procurement as well. Since 2005, ODC outsourced fully the domestic procurement of cereals to private operators, currently comprising of 14 private companies, including two cooperatives, operating on behalf of ODC. These private operators have ODC as a single customer, except when authorised by ODC to sell the cereals directly to flourmills.
- **International procurement:** Imports play an important role as they satisfy ca. 75 per cent of national cereals needs (95 per cent in the case of soft wheat)<sup>32</sup>. In order to meet the domestic demand while maintaining stock levels, forecasts of Tunisia's wheat imports in MY 2022/23 were estimated at 2.1 million tons,

<sup>30</sup> FAO, Analyse de la filière céréalière en Tunisie et identification des principaux points de dysfonctionnement à l'origine des pertes, 2018.

<sup>31</sup> USDA, Grain and Feed Annual, Tunisia, March 2022.

<sup>32</sup> World Bank, Impacts de la Crise Russie-Ukraine sur la Sécurité Alimentaire en Tunisie, 2022

while barley imports were forecast at 950K tons (as of March 2022)<sup>33</sup>. The ODC has a monopoly on the imports of wheat and barley. It is the sole buyers of these commodities from the international markets, which depend on the anticipations for Tunisian cereals production, the demand and movements in international prices of these commodities. The purchase is conducted through international tenders to international traders that are pre-registered with ODC.

- **Storage:** In Tunisia, the national storage capacity is estimated to be approximately 13.7 MQ<sup>34</sup>.
- **Processing:** The downstream activities include mainly flour and semolina milling and animal feed production and are all performed by the private sector. The milling covers two main activities which are flour milling and semolina milling. The mills crush soft wheat and durum wheat to produce flour and semolina (for pasta and couscous). There are 2335 semolina mills throughout the country. Animal feed processing activities are concentrated mainly in large cities (e.g., Tunis, Bizerte, Sousse) and breeding areas (north-west).
- **Distribution:** The domestic distribution of wheat and barley derivatives to consumers is done through hypermarkets and supermarkets (it is estimated that ca. 171 retail points are active in the country) and through small retail stores especially in smaller towns and rural areas (ca. 17,500 estimated, the majority of which selling bread, and estimated to account for ca. 85 per cent of retail<sup>36</sup>).

### **ODC's history and governance**

ODC is a state agency that was created in 1962 and acts as the main operator across the cereals value chain. In 1970, following the privatisation of the import and export of legumes, it was renamed as “Office des Céréales” (ODC). From the early 1990s, the ODC adopted a new strategic orientation in accordance with agriculture new Tunisian plan that led to the privatisation of (i) the import, export and distribution of corn, soya and alfalfa, and (ii) the import and distribution of potatoes. During the same period, the ODC adopted a new policy that allows private operators to act as cereals collectors in the domestic market.

ODC's internal structure entails different management functions (executive management, finance, procurement, inspection and internal audit departments) and comprises a board of directors. The ODC is organised into regional departments, which are responsible for the distribution of grains and first level control. The central services ensure the planning and the second level control (by operational services or audit / inspection departments).

The internal audit charter has been in place since 2016, and has clarified the role of internal audit within the company and detailed the procedures for conducting and monitoring internal audit assignments. The Head of Internal Audit reports directly to management and the board of directors. Tenders for the international purchase of grain follow specific procedures and are public. Tender results are released on ODC website

<sup>33</sup> USDA, Grain and Feed Annual, Tunisia, March 2022.

<sup>34</sup> Observatoire national de l'agriculture (ONAGRI), Mécanisme de la filière céréalière, rôles et parts du secteur privé.

<sup>35</sup> ODC's website

<sup>36</sup> FAO, Analyse de la filière céréalière en Tunisie et identification des principaux points de dysfonctionnement 'à l'origine des pertes, 2018



and provide comprehensive set of information on ODC activities. According to Tunisian regulations, audited financial statements of ODC are shared with the State's audit body ("Cour des Comptes") once approved by ODC board of directors. Different State bodies conduct regular controls on ODC activities.

### **Regulatory framework**

The government plays an important role as a regulator in the Tunisian cereals market by setting the domestic price of cereals at all levels of the value chain (from the domestic production to the consumption) and controlling imports and exports of cereals as well as influencing downstream activities. The following paragraphs describe the various policies that entail different forms of support to production and consumption of cereals and derivatives, as well as trade-related measures.

- **Production policy:** The government adopts a suite of domestic support policies (price controls, subsidies and technical assistance) aimed to achieve greater self-sufficiency by reaching an average annual production of 3 million tons for cereals, of which 1.7 million tons is durum wheat<sup>37</sup>. The domestic support programs include: guaranteed farm-gate price (1000 TND/ton for durum wheat, 800 TND/ton for common wheat, 690 TND/ton for barley); subsidy of certified seeds; subsidy of 50 per cent of agricultural machinery costs and 40-50 per cent of irrigation equipment costs; subsidisation of irrigation water (32 per cent of the cost) to encourage the increase in irrigated wheat area; the provision of technical assistance to irrigated wheat farmers to increase yields<sup>38</sup>. Domestic wheat and barley purchase prices are set by a government decree generally at the beginning of each harvest season and tend to be below market rate (70 per cent of market rate in 2021)<sup>39</sup>.
- **Consumer policy:** Tunisia subsidises wheat consumption in order to guarantee that the population has access to wheat flour, semolina and bread at prices below market rate<sup>40</sup>. Due to the political and social sensitivity of bread prices, wheat subsidies have remained unchanged despite the burden on the state budget. The mechanism of subsidisation of wheat consumption revolves around ODC. ODC sells imported and locally-procured cereals to companies for further processing at a price lower than the market rate, with the gap between purchase price and sale price being covered by subsidies paid by the Tunisian government (Caisse Générale des Compensations) directly to ODC. Based on the company's past financial statements, the subsidies account for ca. 60 per cent of ODC's revenues.
- **Trade policy and regulation of downstream activities:** As partially outlined in the previous sections of the analysis, the state controls the imports and exports of cereals, as well as strongly influencing domestic trade of cereals and derivatives. ODC acts as the monopoly importer with all cereals tenders destined for domestic use. Private millers can import wheat under a temporary admission regime but are required to re-export the finished product after the

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<sup>37</sup> USDA, Grain and Feed Annual, Tunisia, March 2022

<sup>38</sup> Ibid.

<sup>39</sup> World Bank, Impacts de la Crise Russie-Ukraine sur la Sécurité Alimentaire en Tunisie, 2022

<sup>40</sup> USDA, Grain and Feed Annual, Tunisia, March 2022



milling occurring in Tunisia<sup>41</sup>. Exports of Tunisian wheat products require an export license<sup>42</sup>. Export licences are aimed to ensure that the subsidies on the consumption of cereals and derivatives are refunded if the subsidised products are exported<sup>43</sup>. With regards to domestic activities, several important activities downstream in the cereals value chain are subject to prior authorization, such as semolina production and milling<sup>44</sup>.

### **Transition risks and benefits**

The analysis points to a strong state involvement across the entire value chain through monopolistic market structures and a regulatory framework entailing strong support to production and consumption, as well as regulation of trade and downstream activities. [REDACTED].

The expected transition impact of the project has a short-term and medium/long-term dimension. The project promotes the Resilient transition quality by supporting the country to address food security risks both in the short- and in the long-term. In the short-term, through the proposed financing, it addresses the increasing working capital needs of ODC exacerbated by the supply-side shock caused by the war on Ukraine and the rising market prices of cereals and other agricultural commodities. With regards to the long-term resilience of food systems, the project can be considered a channel for the engagement of the government and, where applicable, ODC in the context of a region-wide policy dialogue that the EBRD and FAO are jointly developing and that aims to support the SEMED region to strengthen food security-related policies, optimise the importation process and also build resilience of domestic production.

Under the Well-Governed quality, the project is also expected to be a channel for a policy engagement aimed to pave the way for reforming the market for cereals. The policy engagement will support corporate-level improvements in ODC's governance, practices and standards, as well as pave the way for a sector-level reform that should enable a gradual transition towards a more competitive market structure with an increasing role of the private sector and a potential shift in the role of ODC in the market.

## **ANNEX 10 – TC SSF FICHE**

[REDACTED]

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<sup>41</sup> Ibid.

<sup>42</sup> Ibid.

<sup>43</sup> WTO, Trade Policy Review, Tunisia, 2016

<sup>44</sup> Ibid.