

TUNISIA COMPETITIVENESS SUPPORT PROGRAMMES I AND II

Project Performance Evaluation Report (PPER)

Description of Programmes

This evaluation covers two consecutive programmes. The Competitiveness Support Programme (PAC I, 1999-2001) totalled approximately Euro 416.7m (in 2001) of which the Bank provided Euro 148m. The co-financiers were the EC and the World Bank. PAC II (2001-04) totalled Euro 577m, of which the Bank provided Euro 216m.

The overall aim of the programmes was to establish the basis of a competitive economy and to enable its sustainable growth. Apart from supporting macro-economic management, the programmes were aimed at the improvement of the environment for private investment and supporting privatization, the strengthening of the financial sector (particularly banking and insurance reform), and supporting the liberalization of the ICT sector. Although both programmes supported the same overall reform process PAC I focused more on improving the effectiveness of capital allocation to business, whilst PAC II had a broader focus on improving the general business environment.

Programme Implementation

Loan effectiveness procedures were implemented smoothly. Some flexibility needed to be introduced to the conditionality but this was successfully done given the generally good progress made by the government. Neither programme experienced any significant implementation delay, although of the three financiers the Bank was the slowest in disbursing. The response time of the World Bank was facilitated by prior local processing of disbursement justifications. The level of ownership and pro-activity of the government was high throughout the programme design and implementation process, and the high level of capacity of its staff was evident throughout the programme period. Whilst the government ensured comprehensive consultations with the various sectors covered by the reforms the overall consultation process was found to be unsystematic and insufficient. The reform process could have moved more quickly had more effort been put into building social and political support for the reform programmes.

The government did not supply any programme implementation reports to the Bank arguing that the supervision mission 'aide mémoires' were sufficient and that such reports were not required by the two other donors. Coordination between the three financing agencies, including joint supervisions, was good although the level of field supervision provided by the Bank was judged unsatisfactory.

Programme Effectiveness and Impact

Prudent macro-economic management of the reforms led to improved economic performance in most areas, with GDP fluctuating around 5%. This was achieved despite a number of exogenous shocks to the economy including sluggish European growth, four years of drought, the events of 11 September 2001 and Djerba, oil price increases and the end of the Multi-Fibre Agreement. Economic growth during this period was led by exports. However, the level of FDI remained low due partly to exchange rate restrictions and administrative obstacles, as was the share of private investment in total investment (17.4% in 2005). These were two areas where the reform programmes were not very successful. The two other areas of weakness in the macro-economy were the high unemployment rate (approx 14% in 2006) and the high external tax burden.

In terms of the business environment and privatization almost all the planned measures were implemented. New business establishment processes were speeded up but still remain quite bureaucratic. Tunisia was ranked 59 (out of 175) in the WB Doing Business survey of 2006 - dropping 7



places from the previous year. Business-taxation remains a serious constraint on competitiveness with companies making 45 payments representing about 59% of its profits. Anti-competitive or informal practices were considered by business heads as still a major constraint in 2005. Privatization was conducted slowly and in a staged fashion with the result that it is now fully integrated into the business culture and remarkably well controlled by the authorities.

The financial sector reforms resulted in significant reductions in the level of non-performing bank loans (from 45% to 24%) although these continue to contribute to high borrowing costs - seriously affecting business competitiveness (the 2005 DB survey ranked Tunisia 101 in this area). Access to bank finance remains dominated by large enterprises as does use of the stock market, partly due to reservations about opening family business books to external inspection.

In the insurance sector the reform process has moved slowly. The penetration rate, measured by the consolidated business figures to GDP, was 2% in 2004 compared to the world average of 8%.

The ICT reform objectives have been achieved – notably the liberalization of the sector and the establishment of a new regulatory framework. One disbursement tranche was cancelled by the Bank however due to lack of transparency in the awarding of the second GSM license. Apart from the insurance sector study, the Bank did not finance any studies that could further facilitate its participation. This was assessed as a significant shortcoming as Middle Income Countries (MICs) such as Tunisia are becoming increasingly demanding in terms of the quality of the policy-making assistance that they receive.

Overall, most of the objectives of the two programmes have been achieved and the result has been that Tunisia has received favourable ratings grades from the international ratings agencies and the Davos World Forum ranked it 30th in the world in terms of business competitiveness in 2004-05 - up from 34th in 2002-03. GDP per capita was USD 2,978 in 2004 (USD 8,255 in PPP terms) compared to USD 1,510 (USD 3,778 in PPP) in 1990. The poverty rate was reduced from 13% in 1980-85 to 4.1% in 2000. Overall performance programmes rated as satisfactory.

Lessons Learned

The significant improvement in levels of competitiveness of the economy can be attributed to the high level of political will to implement the reforms, the existence of a broad consensus concerning the reforms at the political level, and the existence of sufficient high-calibre human resources.

Secondly, the programme demonstrates the importance of properly targeting and sequencing reforms and building them into a consistent long-term programme.

Thirdly, the conduct of economic and sector studies made it possible to target and monitor the reforms. They also proved useful in clarifying certain aspects of the reforms and they opened an important channel for dialogue with the authorities. Hence ESW studies should be given adequate importance and finance in the preparation of similar reform programmes.

The privatization and financial sector reform work demonstrated the utility of the Bank being flexible regarding the fulfilment of certain conditions. In being flexible the overall success of the reform programme was ensured. A further lesson is that programme conditions should be feasible within the given time-frame and the verification criteria made very clear.

Main Recommendations

The key recommendations made to the government are that it should conduct longer-term planning of the reform process so as to be able to prepare adequately for each stage, and that it should push on with the reforms and even speed up their implementation.

A number of recommendations for the Bank are made, including that it should increase the strength of its technical expertise as the reforms advance and become more complex; that it should finance preparatory studies so as to increase the value-added of its assistance, and that it should establish with the authorities an overall evaluation framework for the programme which will be used to better target the reform efforts.

For further information, please visit the Web Site <http://www.afdb.org/ojev> or contact:

Mr. Colin KIRK, Director, Operations Evaluation Department OPEV) – c.kirk@afdb.org – Tel. (216) 7110 2041

Mr. H. RAZAFINDRAMANANA, Principal Evaluation Officer – h.razafindramanana@afdb.org – Tel. (216) 7110 2294

OPEV Help Desk: opevhelpdesk@afdb.org - Document Reference: ADB/BD/IF/2006/290 of 21 November 2006