



AFRICAN DEVELOPMENT BANK

Social Inclusion and Transition Support Program Country: Tunisia

APPRAISAL REPORT

May 2011

Appraisal Team	Task Team Leaders	Gehane El Sökkary, Socio-Economist	OSHD-EGFO
		Natsuko Obayashi, Principal Country Economist	ORNA
	Team Members	Justin Murara, Chief Socio-Economist	OSHD
		Paul Dougna, Chief Socio-Economist	OSHD
		Ndoli Kalumiya, Young Professional	OSHD
		Oumama El Ketanni, Young Professional	ORNA
		William Dakpo, Regional Procurement Coordinator	ORPF.1
		Mamadou Yaro, Principal Financial Management Specialist	ORPF.2
	Sector Director	Agnes Soucat	OSHD
	Country Director	Jacob Kolster	ORNA
Division Manager	Ginette Nzau Muteta	OSHD	

Peer Review	Samba Ba, Chief Country Economist	ORWA
	Serge N'Guessan, Chief Governance Expert	OSGE.1
	Audrey Chouchane, Principal Research Economist	EDRE.1
	Michel Guédegbé, Chief Education Specialist	OSHD
	Ali Eyeghe, Principal Social Protection Specialist	OSHD

This report was written by Mmes. Natsuko Obayashi, Principal Country Economist, ORNA, and Gehane El Sökkary, Socio-Economist, OSHD, following the joint missions in Tunis fielded with the World Bank, the European Union and AFD in March-May 2011, in close collaboration with the Tunisian authorities. It received strong participation by a large team comprising Justin Murara, Chief Socio-Economist, OSHD, Paul Dougna, Chief Socio-Economist, OSHD, Baba Imoru Abdoulay, Principal Procurement Officer, OSHD, Elena Ferreras Carreras, Gender Specialist, OSHD, Jeanne Nzeyimana, Principal Micro-Finance Specialist, OSHD, Fabrice Sergeant, Principal Socio-Economist, OSHD, Ndoli Kalumiya, Young Professional, OSHD, Mohamed Damak, Principal Credit Risk Officer, FFMA, Oumama El Ketanni, Young Professional, ORNA, Vincent Castel, Principal Program Coordinator, ORNA, Eric Yoboué, Lead Procurement Specialist, ORPF.0, William Dakpo, Regional Coordinator, ORPF.1, Mamadou Yaro, Principal Financial Management Officer, ORPF.2, and Laurette Dade, Financial Management Officer, ORPF.2. Questions on this report should be referred to Mrs. Agnès Soucat, Director, OSHD (Ext. 2046) and Mrs. Ginette Nzau Muteta, Division Manager, OSHD (Ext. 2488)

Table of Contents

LIST OF TABLES-LIST OF BOXES-LIST OF FIGURES	ii
LIST OF ANNEXES	ii
FISCAL YEAR – CURRENCY EQUIVALENTS	ii
ACRONYMS AND ABBREVIATIONS	iii
LOAN INFORMATION	iv
EXECUTIVE SUMMARY	v
RESULTS-BASED LOGICAL FRAMEWORK	vi
I – THE PROPOSAL	1
II – COUNTRY AND PROGRAMME CONTEXT	1
2.1 Government Strategy and Priorities	1
2.2 Recent Socio-Economic Developments, Prospects, Constraints and Challenges	3
2.3 Status of Bank Group Portfolio	5
III – RATIONALE, KEY DESIGN ELEMENTS AND SUSTAINABILITY	5
3.1 Linkages with CSP, Status of Prerequisites and Underlying Analytical Factors	5
3.2 Donor Collaboration and Coordination	6
3.3 Results and Lessons from Similar Past Operations	7
3.4 Linkages with Other Bank Operations	7
3.5 Bank’s Comparative Advantages	7
3.6 Good Practice Principles for the Application of Conditionalities	8
IV – THE PROPOSED PROGRAMME	8
4.1 Goal and Objectives	8
4.2 Pillars, Operational Objectives and Expected Results	8
4.3 Financing Needs and Arrangements	15
4.4 Beneficiaries	15
4.5 Impact on Gender	16
4.6 Impact on the Environment	16
V – IMPLEMENTATION, MONITORING AND EVALUATION	16
5.1 Implementation Arrangements	16
5.2 Monitoring and Evaluation Arrangements	16
VI – LEGAL INSTRUMENTS AND AUTHORITY	17
6.1 Legal Instruments	17
6.2 Conditions Associated with Bank Group Intervention and Conditions for Disbursement	17
6.3 Compliance with Bank Group Policies	18
VII – RISK MANAGEMENT	17
VIII – RECOMMENDATION	18

List of Tables

Table 1	Bank Projections for the Three Scenarios
Table 2	Assessment of Prerequisites for Budget Support
Table 3	Key Analytical Works Used
Table 4	Actions Prior to Presentation of SITSP to the Board
Table 5	SITSP Financing Needs and Sources of financing in 2011
Table 6	Risks and Mitigation Measures

List of Boxes

Box 1	Transition Government's Emergency Economic and Social Plan
-------	--

List of Figures

Figure 1	Much higher levels of Poverty in the South and Central West regions of Tunisia
Figure 2	Higher levels of illiteracy in Central West and North West regions
Figure 3	Poorer access to health facilities in the Central and South West regions
Figure 4	Growing Unemployment among University Graduates, Tunisia, 1984-2010
Figure 5	Governance Indicators

List of Annexes

Annex 1	Draft Development Policy Letter
Annex 2	Matrix of Programme Measures
Annex 3	Assessment Letter for the World Bank and the African Development Bank Macroeconomic Performance and Policies
Annex 4	Economic Indicators
Annex 5	Assessment of Prerequisites for Budget Support in Tunisia
Annex 6	Status of Good Practice Principles for the Application of Conditionalities
Annex 7	Summary of Tunisia's Public Finance Management Performance Score

List of Technical Annexes

Annex 1	Letter of Development Policy
Annex 2	IMF Assessment Letter
Annex 3	Pillar 1: Reducing Regional Disparities in Access to Social Services
Annex 4	Pillar 2: Employment Preservation and Creation
Annex 5	Pillar 3: Voice, Accountability and Transparency
Annex 6	Donor Support Programme for Micro-Finance Reform
Annex 7	Reform of the Procurement System in Tunisia
Annex 8	Court of Account Reform
Annex 9	Assistance to Returnees from Libya

Fiscal Year

January-December

Currency Equivalents

(May 2011)

UA 1	=	TND 2.18327 (Tunisian Dinar)
UA 1	=	EUR 1.09082

Acronyms and Abbreviations

AfDB	:	African Development Bank
AFD	:	<i>Agence Française de Développement</i> (French Development Agency)
AWF	:	African Water Facility
BCT	:	Central Bank of Tunisia
CNCS	:	<i>Comité National de Coordination et de Suivi</i> (National Coordination and Monitoring Committee)
COSEM	:	<i>Comité de Suivi et d'Enquêtes sur les Marchés Publics</i> (Public Procurement Monitoring and Investigation Committee)
CSM	:	<i>Commission supérieure des marchés</i> (Supreme Board on Procurements)
CSP	:	Country Strategy Paper
EU	:	European Union
EUR	:	Euro
FAPA	:	Fund for African Private Sector Assistance
FDI	:	Foreign Direct Investment
FNS	:	<i>Fonds national de solidarité</i> (National Solidarity Fund)
GDP	:	Gross Domestic Product
IMF	:	International Monetary Fund
INS	:	<i>Institut National de la Statistique</i> (National Institute of Statistics)
MASTE	:	Ministry of Social Affairs and Tunisians Abroad
MENA	:	Middle East and North Africa
MFPE	:	Ministry of Vocational Training and Employment Promotion
MPCI	:	Ministry of Planning and International Cooperation
MTND	:	Million Tunisian Dinars
PAC	:	Competitiveness Support Program
PAI	:	Integration Support Program
SITSP	:	Social Inclusion and Transition Support Program
PEFA	:	Public Expenditure and Financial Accountability
SME	:	Small and Medium Enterprises
UA	:	Unit of Account
UTICA	:	Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat
UGTT	:	<i>Union Générale des Travailleurs Tunisiens</i> (Tunisian Labor Union)
USD	:	United States Dollar
WB	:	World Bank

Loan Information

Client Information

BORROWER : Republic of Tunisia

EXECUTING AGENCY : Ministry of Planning and International Cooperation

Financing Plan

Source	Amount	Instrument
AfDB	USD 500 Million	AfDB Loan
World Bank	USD 500 Million	IBRD Loan
AFD	EUR 185 Million	AFD Loan
European Union	EUR 90 Million	Grant

Information on AfDB Financing

Loan Currency	USD
Interest Type	Floating rate
Base Rate (Floating: Libor USD 6 m)	Rate setting arrangements: at any time, at Borrower's request
Interest Rate Margin	0.60%
Financing Margin	Variable, recomputed every six months and passed on to clients
Commitment Fee	0 basis point
Other Fees	Commitment fee ranging from 0.25% to 0.75% on the amount undisbursed, in accordance with the timetable outlined in the loan agreement
Tenor	20 years
Grace Period	5 years

Timeframe and Milestones (Expected)

Activities	Date
1. Loan agreement negotiations	May 2011
2. Board presentation	May 2011
3. Effectiveness	June 2011
4. Disbursement in a single tranche	June 2011
5. Supervision	September 2011

Executive Summary

1. **The Social Inclusion and Transition Support Program (SITSP) is a multi-donor, nationwide emergency budget support program to help restore socio-economic stability and secure a smooth democratic transition in Tunisia.** SITSP aims to respond to the demands voiced by citizens during the revolution for more jobs, greater equity among regions, better participation of citizens and transparency in governance. This will entail: (i) additional financing to address the economic and social consequences of the revolution; (ii) social and economic stabilisation measures; and (iii) mobilisation of the international community in the transition process.
2. The program will be implemented over 12 months and disbursed in a single tranche in June 2011. The cost of the program is USD 1,409 million and will be financed by AfDB (USD 500 million); the World Bank (USD 500 million); the European Union (EUR 90 million) and AFD (EUR 185 million).
3. **The expected outcomes of the SITSP** are: (i) reducing regional disparities by improving access to social services in underserved regions; (ii) creating jobs and preserving existing jobs; and (iii) strengthening voice and accountability.
4. **The end beneficiary of the SITSP is the Tunisian population.** The vulnerable, the unemployed and civil society organisations (CSOs) will benefit from improved living conditions through greater participation and accountability in public affairs. The main intermediate beneficiaries are: (i) government agencies responsible for implementing the program; (ii) the population in underserved regions who will have better access to social services; and (iii) job seekers who will have greater opportunities.
5. **The Bank's value added in this operation lies in sustained dialogue with Tunisian authorities, the mobilisation of a large technical team made possible by the Bank's presence in Tunisia and lessons learnt from previous operations jointly financed with the same donors.** The Bank mobilised a wide range of expertise in the design of the program including economists, socio-economists, financial management specialists and procurement specialists.
6. **The program contributes to institutional development and knowledge building.** SITSP supports the democratic transition process, its stabilising social and economic impact. The program benefits from a great deal of analytical work and technical assistance that preceded and will accompany it.

Results-based Logical Framework

Country and Program Name:	Tunisia: Social Inclusion and Transition Support Program (SITSP)
Program Goal:	Contribute to restoring socio-economic stability to support the democratic transition in Tunisia

	Results Chain	Indicator	Baseline Data	Targeted Objectives (12 months)	Means of Verification	Risks/Mitigation Measures
		Performance Indicators				
Impact	Impact	Socio-economic situation is stabilised	Socio-economic tensions and demands	Improved socio-economic situation	Successful democratic elections	<p><i><u>Risks:</u></i> Political instability, economic impact of the revolution and current social unrest in Libya</p> <p><i><u>Mitigation Measures:</u></i> 1. Promoting citizen participation and social stability 2. International mobilisation to support Tunisian returnees from Libya</p>
Outcomes	Outcome 1: Reduced regional disparities and improved access to social services	(i) Number of social workers per capita (ii) Proportion of resources transferred to the regions	(i) 1 per 7 000 inhabitants (ii) 40% of transfers allocated to underserved regions	(i) 1 per 4 000 inhabitants (ii) 80% of transfers allocated to underserved regions	MASTE/ Ministry of Regional Development/Interior reports	<p><i><u>Risks:</u></i> Delay in staffing and resource transfer.</p> <p><i><u>Mitigation Measures:</u></i> Civil Service recruitment and financial transfers have been in progress since April 2011.</p>
	Outcome 2: Job creation and preservation	Number of jobs: (i) Created (ii) Maintained	(i) 700,000 unemployed, including 2011 graduates (50,000) and jobless, and returnees from Libya (33,000) (ii) 80,000 jobs threatened, including 10,000 workers laid off	(i) About 40,000 jobs created, including 20,000 in the Civil Service and 20,000 in the private sector (ii) 50,000 persons actively participating in the employment program (iii) At least 180,000 jobs preserved	(i) MASTE and MFPE reports (ii) Evaluation of AMAL programs and public works (iii) UTICA ¹ reports	<p><i><u>Risks:</u></i> AMAL programs and public works for the unskilled are not properly targeted.</p> <p><i><u>Mitigation Measures:</u></i> SITSP supports the implementation of eligibility criteria and mechanisms.</p>
	Outcome 3: Improved citizen voice and accountability	Voice and accountability mechanisms	(i) No mechanism in place (ii) Civil society not involved in decision-making	(i) Establishment of voice and accountability systems. (ii) Revision of Association Law (iii) Access to information	(i) Municipal Council reports (ii) Executive order (iii) Website	<p><i><u>Risks:</u></i> Lack of political will and financial support</p> <p><i><u>Mitigation Measures:</u></i> The program is involved in a broad consultation of civil society, which is highly mobilised. Additional support is mobilised from partners to achieve these objectives.</p>

¹ organisation that represents Tunisian employees in industry, service, commerce and craftsmanship

	Results Chain	Indicator	Baseline Data	Targeted Objectives (12 months)	Means of Verification	Risks/Mitigation Measures
Outputs	Output 1.1 Access to basic healthcare and social services in the underserved regions is facilitated through local services	(i) Number of social worker visits to needy families (ii) Proportion of women receiving at least 4 ante-natal visits	(i) One quarterly visit (ii) 55% of women	(i) At least two quarterly visits. (ii) 70% of women	Ministry of Health and MASTE reports	
	Output 1.2 Coverage of social assistance programs for needy families (PAFN) expanded	(i) Targeting (ii) Number of beneficiaries (including returnees from Libya)	(i) Eligibility criteria from 2005 (ii) 5.6% of the beneficiary population, of which 51% women	(i) Eligibility criteria updated (ii) 7.8% of population benefit from social assistance programs	MASTE report	
	Output 2.1 Creation of new jobs promoted	(i) Incentives to the private sector (ii) Recruitment in the public sector (iii) Implementation of public works programs in the regions	<u>Context of the Unemployed:</u> 160,000 graduates 340,000 unskilled workers 33,000 jobless returnees from Libya Ineffective labour market programs Competitive public sector recruitment suspended since 2008	(i) Integration of about 39,000 skilled job seekers into the private sector ² (ii) 20,000 jobs stabilised or created in the public sector, including for women (iii) Number of unskilled persons hired for public works	MFPE, UTICA, Ministry of Rural Development and Ministry of Public Works reports	
	Output 2.2 Threatened jobs preserved	(i) Incentives for private enterprises (ii) Continuing training for workers laid-off	(i) 30,000 private sector jobs in a precarious situation due to recession (ii) 10,000 workers laid off	(i) At least 15,000 threatened jobs are preserved (including for women) (ii) At least 8,000 workers laid off redeployed (including women)	UTICA, MPFE reports	
	Output 2.3 Institutional mechanisms for employment promotion improved	(i) Improved employability of young graduates through the AMAL program. (ii) Management of Fund 21-21 (iii) Micro-finance services expanded	(i) AMAL program launched 1 March 2011 (ii) Fund 21-21 under the President's Office and unaudited (iii) Lack of micro-finance regulatory framework	(i) 200,000 graduates (including women) (ii) Fund 21- 21 under the MPFE, with known and transparent management system (iii) The roadmap for micro-finance is formulated.	Central Bank/ Ministry of Finance directive.	

² AMAL plans to improve the employability of 20,000 people in the private sector; 10,000 in Private-Public Partnerships; 2,000 in associations; and 2,000 skilled workers for work abroad, and 5,000 entrepreneurs.

	Results Chain	Indicator	Baseline Data	Targeted Objectives (12 months)	Means of Verification	Risks/Mitigation Measures
	Output 3.1 Improved level of citizen participation	(i) Regulatory framework for freedom of association (ii) Special delegations replace municipal councils (iii) Control mechanism and citizen participation through representation.	(i) Very rigid association authorisation and classification system. (ii) Inoperative municipal councils and lack of civil society representation (iii) No reliable mechanism for peer review and citizen participation	(i) Number of new associations created. (ii) 36 special delegations are operational with the presence of the civil society (iii) Voice and accountability system operational in pilot regions	(i) Register of Associations (ii) Ministry of Interior report (iii) Prime Minister's report	
	Output 3.2: Access to information promoted	Regulatory mechanisms allowing access to information.	Very restrictive publication and access to information and data	The principles of transparency are applied in the access, dissemination and publication of information and data	Publication of the household, employment and national accounts surveys by INS	
	Output 3.3 Enhanced transparency	(i) Revision of the Public Procurement Code (ii) Publication of Court of Account reports	(i) Procurement system lacks transparency and efficiency (ii) Publication subject to authorisation by the President of the Republic	(i) The procurement system and procedures revised, with enhanced effectiveness and transparency (ii) Court of Account reports are published in full	Reports of the Public Procurement Observatory Website	
Components	Components				Inputs	
	Component 1 – Reducing regional disparities by improving access to social services in underserved regions				AfDB: USD 500 million	
	Component 2 – Creating and preserving jobs				World Bank: USD 500 million	
	Component 3 – Improving voice and accountability				EU: EUR 90 million AFD: EUR 185 million	

**REPORT AND RECOMMENDATION BY MANAGEMENT OF THE AFRICAN
DEVELOPMENT BANK GROUP TO THE BOARD OF DIRECTORS
CONCERNING A LOAN PROPOSAL IN FAVOUR OF TUNISIA TO FUND
THE SOCIAL INCLUSION AND TRANSITION SUPPORT PROGRAMME**

I. PROPOSAL

1.1 **This proposal is submitted to the Board for approval of a loan of USD 500 million (UA 308 million) to Tunisia to finance the Social Inclusion and Transition Support Program (SITSP).** This is a nationwide emergency budget support program to be implemented over 12 months starting May 2011, to be disbursed in a single tranche. Following a request from the Government dated April 21, 2011, the appraisal was conducted in April after sustained dialogue with the Tunisian authorities and other co-financiers in February-March 2011.

1.2 **SITSP forms part of the Emergency Economic and Social Recovery Program adopted by the Government in April 2011.** It is aligned with the Country Strategy Paper (CSP 2007-2011), adopted in July 2007, and for which the mid-term review was approved in December 2009. The Government emergency program and the Letter of Development Policy were deemed satisfactory by the Bank, the World Bank (WB), the European Union (EU) and the French Development Agency (AFD).

1.3 **The program design took into account the principles of the Paris Declaration on Aid Effectiveness and good practice principles for the application of conditionalities.** It was prepared jointly with the other co-financiers, to ensure complementarity with the actions of other donors, on the one hand, and with Bank operations, on the other.

1.4 **The main goal of the program is to help restore socio-economic stability to support the democratic transition in Tunisia, following the revolution of January 14.** Tunisia's medium- and long-term prospects are very promising, both with regard to the political process and the economy. In the short term, however, the country is facing major economic and social challenges, amplified by the slowdown in economic activities and ever-increasing social demands. The program first aims to mitigate the challenge at the macroeconomic level by contributing to the budget and easing the pressure on the current account balance. It also seeks to support the transition process through program measures geared towards greater transparency and citizen participation in governance, broadening employment opportunities and offering better social services in underserved regions.

1.5 **This program is a first step in breaking with the past and proposes reforms for a new Tunisia. The expected program outcomes include:** (i) reducing regional disparities by improving access to social services in underserved regions; (ii) creating new jobs and preserving existing ones, and enhancing the functioning of employment promotion mechanisms; and (iii) improving citizen voice and accountability in governance. To mark this change, the Bank undertook a broad consultation with civil society in developing this program.

II. COUNTRY AND PROGRAMME CONTEXT

2.1 Government Strategy and Priorities

2.1.1 **Despite the country's relative economic success over several decades, substantial social and development challenges persist.** Tunisia has been considered an example of successful economic and social development on the continent. It has established a track record of sound macroeconomic capacity coupled with impressive social achievements, making it one of the best performing countries

in Africa. This performance has been further buttressed by the progress accomplished in recent years, particularly the record growth of 6.3% in 2007, and then by the recovery that began in 2010 following the 2009 economic crisis. The same is true at the social front, with the likely achievement of most of the Millennium Development Goals (MDGs). However, the revolution and the ensuing social protest demonstrate the urgency of addressing the issues of unemployment, especially among the youth in the country's interior; regional disparities and lack of transparency and individual freedoms. The social demands that were at the heart of the revolution will grow with heightening expectations from the Tunisian population.

Box 1 - Transition Government's Emergency Economic and Social Plan

1. Security

A prerequisite for any development activity of individuals and societies.

2. Employment

Measure 1: Program for exceptional recruitment in the Civil Service and a recovery plan.

Measure 2: Active employment policy, in particular the AMAL program

Measure 3: Public utility programs in the regions

3. Economic Support and Financing

Measure 4: Business support and recovery program

Measure 5: Restructuring of the micro-credit system and SME financing

Measure 6: Fiscal and financial measures for reviving the national economy

Measure 7: Infrastructure projects to stimulate investment

Measure 8: Pilot projects in information and communication technology (ICT)

Measure 9: Program to promote the new image of Tunisia

4. Regional Development

Measure 10: Significant reallocation of expenditure towards priority areas

Measure 11: Budget allocation to regional authorities for local employment mechanisms and welfare.

Measure 12: Dissolution of regional councils and their replacement with special delegations involving civil society and local expertise.

Measure 13: Implementation of major ICT projects and pilot projects in the regions

5. Social Actions

Measure 14: Increasing assistance to needy families

Measure 15: Improved housing

Measure 16: Assistance to returnees from Libya

Measure 17: New legal framework for charities

2.1.2. Recognising the challenges and issues at stake, the transitional Government on April 1, 2011 adopted an emergency economic and social program in order to meet the most urgent needs during the transition period. The program, consisting on 17 measures (see box 1), took into account the main social demands from the revolution. A short-term program, to be implemented by end 2012, it targets five areas of highest priority to the transition, namely: (i) security; (ii) employment; (iii) economic support and financing; (iv) regional development; and (v) social policy. SITSP was designed to support the Government's emergency economic and social program. It will be supplemented with additional technical assistance from the Bank and the co-financiers, as well as broader support from the wider community of development partners.

2.2. Recent Economic and Social Developments, Prospects, Constraints and Challenges

2.2.1 **Prior to the revolution, early signs of economic recovery were seen in 2010, with an estimated 3.7% GDP growth, following the 2009 economic crisis that had slowed down growth to 3.1%.** Average inflation reached 4.4% in 2010. The hike in international prices was partially passed on to domestic prices in order to contain the level of subsidies. The current deficit rose from 2.8% in 2009 to 4.8% in 2010, driven by the 30% widening trade deficit following the recovery of the export sector, which led to imports (+17%) outstripping exports (+14%). Tourism earnings fell (-5%) in the wake of the recession in Europe, as did FDIs (2.3%). The fiscal deficit was reined in at 3%, notwithstanding the economic crisis, the effects of the recession and the ensuing recovery plan, thanks to the performance of tax recovery, which enabled the Government to introduce a counter-cyclical policy without further worsening the fiscal deficit.

2.2.2 **The Bank's projections³ predict three scenarios, with 1.1% growth in 2011 for the intermediate scenario.** In the three scenarios, GDP is affected by a drop in demand for tourism services, a

	Macroeconomic Indicators							
	2009	2010(e)	2011(p)			2012(p)		
			Low	Mid	High	Low	Mid	High
GDP Growth	3.0	3.7	-2.5	1.1	3.6	2.4	3.3	4.2
Inflation	3.5	4.4	6.4	4.7	4.2	4.4	4.6	4.2
Budget Deficit (GDP %)	-2.7	-2.6	-6.0	-5.2	-3.9	-5.9	-4.8	-3.2
Current Account Deficit (GDP %)	-2.8	-4.7	-8.9	-7.6	-6.1	-7.0	-5.6	-4.4

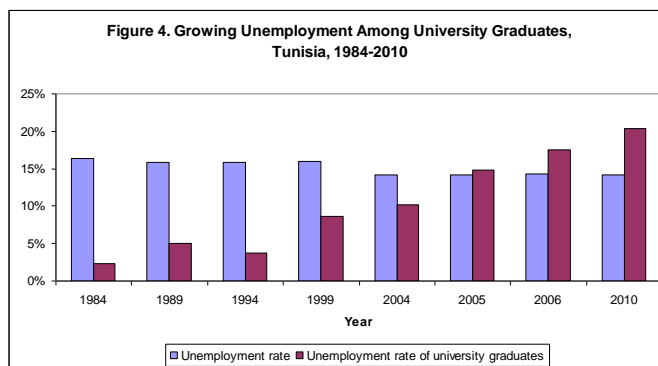
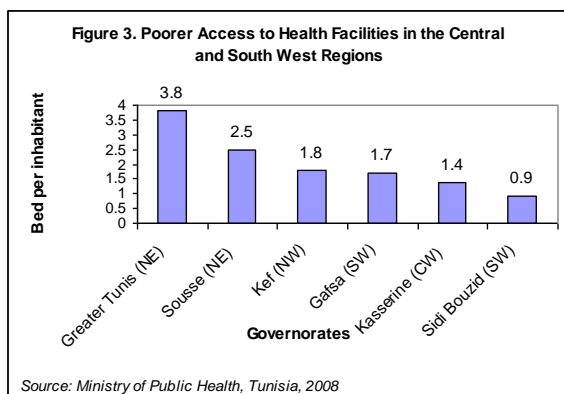
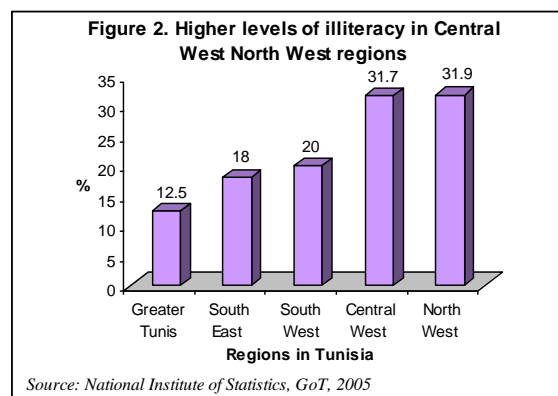
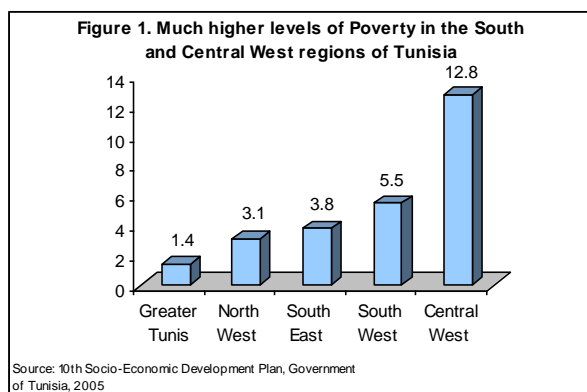
disruption in economic activities and a reduction in FDIs. Private investment will also contract, while current public spending, particularly the wage bill, will rise considerably because of increasing social demand, which will raise the budget deficit to 5.2% of GDP for the intermediate scenario. The current deficit will rise to settle at 7.6% of GDP, following an increase in imports and a drop in tourism earnings. Likewise, inflation may rise to 4.7%. Table 1 shows the major macroeconomic indicators, according to the optimistic, pessimistic and intermediate scenarios.

2.2.3 **IMF projections – which align with those of the Bank - predict a 1.3 % growth in 2011.** In the first quarter of 2011, tourism earnings and FDIs fell to 43% and 30% respectively, compared to the same period in 2010. However, exports recovered by 10% over the period. The projection predicts a current account deficit of 7.8% of GDP due to the 40% reduction in tourism receipts and 60% reduction in FDIs, and also to the increase in the international prices of food and energy products. Remittances, which account for 5% of GDP are also expected to be reduced by nearly 5% in 2011. The trade deficit would increase by 19%, with imports (11%) outstripping exports (9%). The foreign reserves, which amounted to five months of imports by the end of 2011, are expected to decrease to 3.7 months by end 2011. Moreover, the economic slowdown, coupled with the increase in recurrent expenditures (+26%), social transfers and subsidies (+76%), will double the fiscal deficit from the one planned under the initial 2011 Budget Law. The fiscal deficit would reach 4.5% of GDP (see Annex III).

2.2.4 **There are major regional disparities in social services, with the interior regions more underserved compared to the coastal ones.** While the rural population accounts for one-third of the country's population, those in the South-West and Centre-West regions have the highest incidence of poverty (Figure 1). The relative poverty rate (set at 50% of average income) and the absolute poverty rate are higher in Kasserine (30-40%), Sidi Bouzid (35-45%) and Gabes (27-31%) than in the rest of

³ "The Revolution in Tunisia: Economic Challenges and Prospects", AFDB, Audrey Verdier-Chouchane (EDRE), Natsuko Obayashi (ORNA), Vincent Castel (ORNA)

the country. The unequal access to social services is reflected in the high levels of illiteracy in the interior regions (Figure 2), the wide disparities in the enrolment rate for higher education⁴, access to drinking water and sanitation⁵ and access to health services⁶ (Figure 3).



2.2.5 Unemployment is at the heart of the social and political problems, and a major issue for the youth, especially among university graduates, and for the interior regions. While the national unemployment rate is 14.2%, it is 29% in Kasserine (Centre-West), 25.8% in Gafsa (South-West), 21.9% in Jendouba (North-West) and 19% in Siliana (North-West). Although the majority of the jobless are unskilled, unemployment among graduates grew tenfold during the past two decades, to 23% in 2010. Thirty-two per cent of the 520,000 unemployed are graduates (Figure 4). Unemployment is expected to rise following: (i) layoffs by companies to cope with dwindling business activity⁷; and (ii) the influx of Tunisian returnees from Libya⁸. Moreover, the employment rate for women is very low, with only 28% of them on the job market. Men are thrice as likely to find a job in the services, trade and agricultural sector and twice as likely in the industries.

2.2.6 Following decades of top-down rule and lack of transparency, there is a remarkable deficit in social inclusion and citizen voice and accountability. The Voice and Accountability indicator is well below the average for the Africa and MENA (Middle East and North Africa) ⁹region (Figure 5), with the lack of political rights and civil liberties condemned by international NGOs for human rights, such as the Global Integrity Report or Freedom House.

⁴ 8% at Kasserine, 10% at Sidi Bouzid, 12% at Jendouba, compared to the national average of 18%.

⁵ 8% at Kasserine, 10% at Sidi Bouzid, 12% at Jendouba, compared to the national average of 18%.

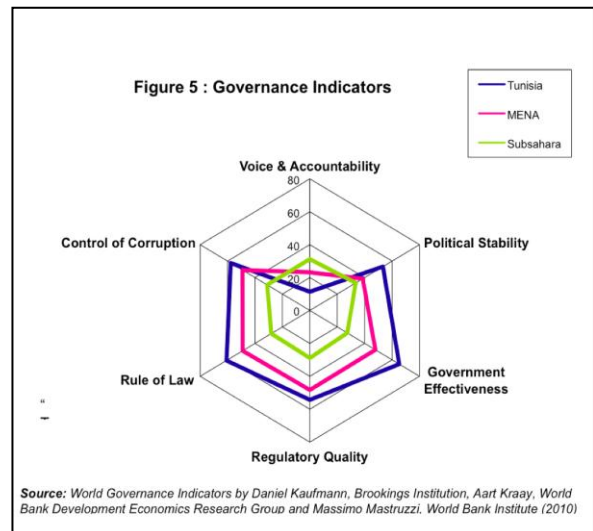
⁶ Sidi Bouzid and Kasserine have 0.9 and 1.4 beds per inhabitant, respectively, compared to Sousse with 2.5 beds per inhabitant and Grand Tunis 3.8 beds per inhabitant.

⁷ Additional unemployment is estimated at over 10,000 people since January 2011, and could reach 30,000 in 2011.

⁸ Tunisian workers who have returned from Libya are currently estimated at 33,000. This number is expected to rise to 80,000.

⁹ Governance indicators of the World Bank Institute are crude indicators combining data from survey institutes, think tanks, NGOs and international organisations.

Public administration in Tunisia was highly centralised, with a pervasive presence of the State in the life of the people. Development of civil society was limited or even discouraged. In the wake of the revolution, Tunisians are aspiring for greater transparency and participation by civil society at the national and regional level. The role played by the small elite in power in controlling part of the economy was one of the causes of the revolution. While the robustness of the public finance system has been demonstrated, the weak governance and risk management within public banks was a reason for the high level of exposure of Tunisian banks to businesses belonging to the inner circles of the former government.



2.3 Status of Bank Group Portfolio

Tunisia's has the third biggest active portfolio of the Bank with a net commitment of UA 1.2 billion, and contains no project-at-risk. It comprises: (i) ten (10) public sector projects (UA 932 million, of which UA 363 million is undisbursed); (ii) two (2) private sector projects (UA 155 million, fully disbursed); (iii) ten (10) grants on the MIC fund (UA 4.2 million); (iv) one (1) FAPA grant and two (2) AWF grants (UA 3.4 million); and (v) emergency assistance to returnees from Libya (UA 0.63 million). With an overall score of 2.7 points on a scale of 3 in 2008, against 2.53 in 2005, the portfolio performance is highly satisfactory and among the Bank's best. It shows an improvement resulting from the Bank's intensified monitoring of its operations and better control of project management.

III. RATIONALE, KEY DESIGN ELEMENTS AND SUSTAINABILITY

3.1 Linkages with CSP, Status of Prerequisites and Underlying Analytical Factors

3.1.1 **SITSP is aligned with the pillars of CSP 2007-2011, which was reviewed at mid-term in 2009, even if the operation, prepared in response to the challenges arising from the revolution, was not initially planned.** The review confirmed the continuation of the pillars: (i) strengthening macro-economic policies and accelerating reforms; (ii) modernising infrastructure and strengthening the productive sector for sustainable development; and (iii) consolidating the human capital. SITSP contributes mainly to the third pillar, through its components on employment creation and preservation, and on social services in underserved regions. It also contributes to the first pillar of the CSP through institutional reform measures in areas such as procurement, disclosure of information on the budget and State accounts. The Bank plans to review its strategy in 2011, taking into account the new priorities in the wake of the revolution.

3.1.2 **All the technical prerequisites for implementing general budget support are satisfactory, while the program helps to meet the general prerequisites.** The assessment of prerequisites is presented in Table 2 below and is further developed in Annex V.

Table 2: Assessment of Prerequisites for Implementing Budget Support in Tunisia

AfDB Prerequisites	Comments for Tunisia
General Prerequisites	
<ul style="list-style-type: none"> • Political and economic stability 	<ul style="list-style-type: none"> • The program will contribute to maintaining political and economic stability
<ul style="list-style-type: none"> • Government commitment 	<ul style="list-style-type: none"> • The Government is committed to implementing this program, as it contributes to the political transition and the establishment of a democratic environment in Tunisia
Technical Prerequisites	
<ul style="list-style-type: none"> • Existence of a PRSP or a National Development Plan in the RMC 	<ul style="list-style-type: none"> • The 12th Development Plan adopted in July 2010 provides a framework for long-term development. The Transitional Government adopted an emergency program for economic and social recovery.
<ul style="list-style-type: none"> • Viability of the macroeconomic framework and financial sector in the medium term 	<ul style="list-style-type: none"> • Tunisia has traditionally had a stable and sustained macro-economic framework. After the IMF macroeconomic and financial sector assessment mission, no IMF program is planned.
<ul style="list-style-type: none"> • Existence of strong partnership between the RMC and donors, and between donors 	<ul style="list-style-type: none"> • Tunisia has shown a great capacity to coordinate the work of development partners with a high degree of ownership of reform programs harmonised with reviews and joint conditions for disbursement.
<ul style="list-style-type: none"> • Satisfactory fiduciary review of the public finance management system 	<ul style="list-style-type: none"> • PEFA 2010 demonstrated the soundness of Tunisia's public finance system and the low level of fiduciary risk in terms of public finance management

3.1.3. **The program has a solid analytical underpinning which has contributed to sound program formulation.** Table 3 gives an idea of the key analytical works covering targeted areas of the program, carried out by the Bank and other partners.

Table 3. Key Analytical Works Used

Organisation	Analytical Work
AfDB/WB/EU	Public Finance Management Performance (PEFA)
WB 2009	Labour Market Dynamics and Adequacy of Training among University Graduates
AfDB 2009 (internal doc.)	Analysis of Youth Graduate Employment in Tunisia
WB 2009	SMEs Access to Finance
EU 2010	Study on the Microfinance Market in Tunisia
AfDB 2011	Revolution in Tunisia – Challenges and Economic Prospects
AfDB Working Paper 2011	Dynamics of Youth Graduate Employment in Tunisia
AfDB 2011	The Aftermath of the Tunisian Revolution: A Preliminary Assessment of the Soundness of the Tunisian Banking System
AfDB Working Paper 2011	Speeding up AfDB's Response to the Crisis of Youth Unemployment in Africa

WB: World Bank; EU: European Union

3.2 Collaboration and Coordination with Other Donors

3.2.1. **Collaboration and coordination with the other donors was done in the spirit of the Paris Declaration on Aid Effectiveness.** The partners shared analytical work, conducted joint identification/preparation (March 2011) and appraisal (April-May 2011) missions resulting in joint aide-memoires, prepared a matrix of joint measures and coordinated their efforts during negotiation. Presentation of the program to the Board will be done successively for the Bank, the World Bank, AFD and EU to ensure close complementarity and a sustained pace of implementation of the measures. All program missions will be fielded jointly. In conformity with the Paris Declaration, the program ensured

the alignment of aid on national priorities, made use of country systems (direct resource allocation to national budget and designation of the Ministry of Planning and International Cooperation as the coordinating organ of the program) and secured government commitment to implement reforms.

3.3 Outcomes and Lessons from Similar Past Operations

Lessons from previous programs are reflected in the program design. Since the 1990s, the Bank has co-financed reform programs jointly and in alignment with the World Bank and the EU. Specifically, the three competitiveness support programs (PAC I, PAC II and PAC III), implemented from 1999 to 2007, supported macroeconomic reforms, the business environment and the financial sector. The Integration Support Program (PAI), which is nearing completion, supported the country's integration into the global economy through reform of trade integration, the business environment and access to financing. These operations were conducted successfully. Lessons were drawn from these programs and taken into account in the formulation of SITSP, including: (i) constructive dialogue on the reforms and strong ownership of the reforms; (ii) close collaboration with other donors in reform formulation and implementation; and (iii) focusing on actions necessary to achieve Government's objectives.

3.4 Relationship with Other Bank Operations

3.4.1 SITSP was formulated to complement already existing Bank operations and those on the drawing board. A series of technical assistance and studies have recently been proposed by the Bank and the co-financiers, and are being discussed with the Government. The Bank has prepared several technical assistance proposals to accompany the program, mainly: (i) assistance to the Ministry of Regional Development, created recently, to put in place a regional information system and an inter-ministerial coordination mechanism on development and regional disparities; (ii) assistance in the targeted pilot regions to support local administrations to implement employment initiatives, social services and citizen participation; and (iii) a diagnostic study of the civil society to assess its weaknesses, strengths and needs, with a view to building its capacity to respond to Tunisia's new context and (iv) a study on the diagnosis and repositioning strategy of the *Banque Tunisienne de Solidarité* (Tunisian Solidarity Bank) in micro-credit, which will help to redefine its role in a new more open micro-credit landscape. This public institution had virtual monopoly in refinancing micro-credit on behalf of the State. Furthermore, three other Bank operations under preparation will help improve access to employment and basic services in underserved regions. These projects include the Gabes-Ras Jedir Highway, the Rural Drinking Water Supply Project and a line of credit to Tunisian banks.

3.5 Bank's Comparative Advantages

3.5.1 The Bank has a strong comparative advantage and value added, driven by sustained dialogue with the authorities and the mobilisation of a large technical team made possible by the Bank's presence in Tunisia. This program will consolidate other Bank operations, as it contributes to stabilise the transition process for a new democratic regime to be put in place. The Bank has extensive experience in economic reform operations. The Bank also mobilized expertise and technical assistance to support the program measures.

3.6 Good Practice Principles for the Application of Conditionalities

3.6.1 A table on good practice principles for the application of conditionalities is included in Annex VI.

IV. THE PROPOSED PROGRAMME

4.1 Goal and Objectives

4.1.1 **The main purpose of SITSP is to contribute to restoring socioeconomic stability to support Tunisia's democratic transition.** The program supports the country's most urgent needs in terms of the popular demands expressed against rising unemployment and regional disparities, enhanced transparency and greater involvement of the people in the affairs of the country, on the heels of the revolution.

4.2 Pillars, Operational Objectives and Expected Outcomes

4.2.1 **The following program objectives are designed to meet the immediate challenges facing the country's transition:** (i) reduce regional disparities by improving access to social services in deprived areas; (ii) create jobs, maintain existing ones and improve job-promotion mechanisms; and (iii) improve voice and accountability in governance. The program measures are shown in the Matrix of Measures in Annex II.

OBJECTIVE 1: REDUCING REGIONAL DISPARITIES IN ACCESS TO SOCIAL SERVICES

4.2.2 **Despite significant efforts made to reach the Millennium Development Goals, wide disparities remain between the interior and coastal regions of the country in terms of access to social services.** The Government's measures are aimed at improving access to social services, extending coverage of assistance to vulnerable families and transferring more resources to neglected regions with wide disparities with regard to youth unemployment and the general welfare of the people.

Objective 1-a. Facilitate access to basic social services by vulnerable people in underserved regions

4.2.3 Context and challenge: Access to basic social services in underserved regions poses a human resource and logistic challenge for the authorities. For instance, the health sector suffers from a shortage of obstetricians and little access to antenatal services. This has raised the maternal mortality rate to 70 per 100,000 live births in the South-West and Central regions, well above the national rate of 40 per 100,000 live births. The social protection situation is equally grim with very limited social assistance services because of the inadequate number of social workers (one per 7,000 inhabitants) and the lack of logistics to reach remote areas. House calls on needy families are restricted to once quarterly, unlike once monthly in other regions. Despite the substantial resources mobilised (TND 1.2 billion yearly on average) to support the Vulnerable Families Assistance Program, the results have been mixed. The beneficiary eligibility criteria are not up to date and hardly known to the public. The resource allocation scale is unfamiliar and no impact assessment has been conducted on the activities carried out, although the Government plans to allocate over 20% of its GDP to these programs by 2014. Tunisians repatriated from Libya (over 33,000 to date) are mostly from the underserved regions.

4.2.4 Program measures: **To meet these challenges, the SITSP program supports the implementation of a mobile program for health, education and social services in underserved areas.** This measure is designed to reduce geographic barriers to access to social services and healthcare in neglected areas. It will help to increase the number of outpatient consultations for each inhabitant and promote rapid social assistance to vulnerable households. To cope with staffing shortages, the Government plans to immediately recruit 20,000 graduates to replace retired public service workers. Most of these graduates will be assigned to the social services of underserved regions.

Objective 1-b: Extend coverage of social assistance programs to needy families (PAFN)

4.2.5 Context and Challenge. **The on-going assistance programs only partially cover the vulnerable population, and are prepared using inappropriate criteria.** The PAFN covers approximately 131 000 families (51% of which are currently women), where income, family size and household living conditions are used as criteria. However, the criteria have not been updated to suit specific regional circumstances or changes in the structure of households or special cases like Tunisian returnees from Libya, with no resources.

4.2.6 Program Measures: **SITSP helps the Government improve the quality of targeting and expand coverage to support needy families.** Specifically, it is designed to: (i) expand the coverage of social assistance programs from 131,000 to over 185,000 needy families, who will receive TND 70 monthly; and (ii) provide TND 400 per individual and TND 600 per family in emergency assistance for the 33,000 returnees from Libya. Support measures to be taken to ensure greater transparency and efficiency for improvement include: (i) readjusting the fund threshold; (ii) setting up weighting systems for the sub-criteria under “household conditions”; (iii) setting criteria for emerging from the program; and (iv) establishing monitoring/evaluation and impact assessment mechanisms for these programs. The expected outcomes are: (i) the targeting tools will be more up to date and efficient; (ii) the rate of coverage of needy families will increase from 5.7% to 7.9% by late 2011, with more women beneficiaries; (iii) the resource allocation scale will be more transparent; and (iv) Tunisian returnees from Libya will be re-integrated in the country.

Objective 1- c: Promoting the development of the underserved

4.2.7 Context and Challenge: **The lack of resources further constrains the ability of local authorities to perform their duties, at a time when they have to cope with other needs stemming from the revolution.** While the local authorities are required to play a more important role, they currently have to cope with immense additional needs due to: (i) the major shortfall in fiscal earnings for 2011; (ii) the need to rehabilitate and repair the damage caused by events related to the revolution and the popular uprising; (iii) the increasing pressure for job creation; and (iv) taking into account social needs in underserved areas. The Government plans to cover part of these needs with medium-term investment expenditure. However, emergency transfers should be made to cope with these additional needs in 2011. The most urgent needs are operating expenses to enable local authorities to provide routine municipal services to citizens.

4.2.8 Program Measures: **To send out strong and clear signals to underserved regions, the program will implement measures aimed at transferring resources to local authorities and reviewing the criteria for reallocating resources to the regions.** This involves: (i) building the financial capacity of local authorities by making emergency transfer of funds to cover immediate Title 1 expenditure. This should also entail granting permanent status to temporary workers. This measure will help to regularise the unstable situation of services provided by local authorities and restart some services that had been shelved; (ii) the program will contribute to curbing regional disparities by reviewing the criteria for reallocating resources to the regions for regional development, based on socioeconomic criteria, such as unemployment and the poverty rate, etc. Resources for investment projects in the underserved regions amount to TND 251 million, to cover investment projects to improve the livelihoods of the people through housing, minor public works, consolidating employment through micro-grants amounting to TND 1,000 per person, access to potable water, rural electrification and feeder roads.

OBJECTIVE 2: CREATING AND PRESERVING JOBS

4.2.9 **Structural unemployment among Tunisian youth has been aggravated by the 2009 economic crisis and lately by the short-term impact of events related to the revolution.** This has led to fewer job opportunities and increased instability in some promising sectors. The Government's program to curb the toll taken on employment by successive crises includes job creation and preservation measures as well as medium- and long-term measure to reduce the level of youth unemployment.

Objective 2.a: Promoting the creation of new jobs

4.2.10 **Context and Challenge: The revolution has significantly slowed down the recovery that began in 2010, and thwarted opportunities for job creation.** Indeed, the on-going economic crisis has had repercussions on growth and the level of an already structurally high unemployment, especially among the youth. The number of unemployed, estimated at 520,000 is likely to reach 700,000 in 2011 (with the massive return of Tunisians from Libya and the new 2011 graduates). The Tunisian Government had laid out several active employment policy mechanisms to facilitate the integration of job-seekers as well as encourage paid and/or independent work¹⁰. Apart from these institutionalised programs, the Government set up a labour-intensive public works program in several regions, as part of its policy to reduce the adverse effects of the 2009 economic crisis, thereby creating thousands of temporary jobs.

4.2.11 **Program Measures: The Government plans to ensure prompt revival of employment with measures targeting skilled and unskilled workers in the private and public sectors, with emphasis on impoverished regions and persons unemployed over a long period.** It plans to do so through the following measures: (i) grant incentives to companies to promote the recruitment of qualified workers; and (ii) encourage paid work in the five most underserved regions to enable the people to implement labour-intensive work programs for workers with little or no skills. At the same time, the Government plans to undertake recruitment and regularisation of public administration workers to partly fill vacant positions in such priority sectors as education, health and regional development¹¹. To ensure greater fairness in its recruitment process, the Government has introduced affirmative action in favour of citizens living in the most impoverished regions and/or who have been unemployed for a long period. These measures are expected to create nearly 40,000 new jobs nationwide, of which some 20 000 jobs in the private sector, including offshore services. The Government has undertaken to pass an executive order on incentives for the creation of new jobs by the private sector.

Objective 2-b Preserving threatened jobs

4.2.12 **Context and Challenge: The immediate adverse effects of the revolution are characterized by the loss of jobs, stemming from damage to production tools and the perception of security issues by clients of the tourism industry.** Threatened jobs are estimated at about 30,000, not to mention informal sector jobs, especially in the underserved areas. The Government recently set up a support fund for struggling business to help them reduce their debts toward the banking sector and introduced drawing rights mechanisms to help finance training and retraining of workers.

¹⁰ The active employment policies include: Course in Initiation to the Labour Market (SIVP); Contract for Integrating Higher Education Graduates (CEDES); Vocational Integration and Adaptation Contract (CAIP) and Reintegration into the Labour Force (CRVA).

¹¹ The number of civil servants has grown in line with the public administration modernisation plan, to an annual average of 4,500 civil servants – a one-per cent rise from 2000 to 2010. Retirements are roughly expected to be 7,500 per year for 2011 and 2012. The burden of the wage bill on public expenditure has dropped since 2005 and hovers around 46-47% (2010 and 2011)

4.2.13. Program Measures: **The Government is committed to pursuing its active support for preserving jobs, targeting both businesses and workers.** *For businesses*, the targeted support will take the form of subsidies to cover the debt burden in the short term for companies and tax holidays, depending on the volume of jobs to be maintained and the sustainability of the beneficiary companies. *For workers*, it will entail (a) maintaining the level of productivity of workers through training; (b) increasing the ability of workers to be multifunctional to support internal mobility; and (c) promoting redeployment to more promising job sectors. The expected outcomes are: (i) safeguarding almost all threatened jobs in 2011; (ii) level of productivity of workers maintained because of training; and (iii) maintaining jobs in 2012 and beyond under the redeployment program.

Objective 2-c Promoting employability of first-time job seekers

4.2.14 Context and Challenge: **The difficult economic situation currently faced by the country, which may continue into 2012, will exacerbate the problem of integrating graduates and non-graduates, as 50,000 new job seekers arrive every year on the job market.** Furthermore, the unemployment rate for higher education graduates is generally higher than for less-educated job seekers. Moreover, the unemployment duration is longer for most certificate holders. To meet the market demand, the Government recently prepared a new strategy called “AMAL”, meaning hope, which was launched in 1 March 2011. The program aims to provide 200,000 unemployed graduates with personalised support based on their skills profile. These unemployed will be paid TND 200 in monthly allowance for the training they will be receiving.

4.2.15 **Microfinance activities were stifled under the previous regime, due to the restrictive measures imposed on associations.** The sector was thus under a near monopoly, with a State institution – *Banque tunisienne de solidarite* – controlling a good part of the financing for the sector. In the aftermath of the revolution, the microfinance sector is enjoying greater interest from stakeholders, including new associations, public bodies and potential public and private donors. An initiative emanating from private stakeholders led to the organisation of a conference on microfinance in Tunisia in April 2011, which confirmed the authorities’ commitment to implement deep reforms and engage stakeholder interest in participating in these reforms (see Technical Annex).

4.2.16 **The National Employment Fund (Fund 21/21), the main source of financing for programs of the National Employment Agency (ANETI), would have had a better impact if its management (assigned to the President’s Office) had been more transparent and subject to evaluation.** Fund 21/21 is a highly centralized presidential fund financed directly by the Treasury. Its resources are considerable (TND 217 million in 2010 or 0.42% of GDP) and could have a better impact if used more efficiently. The fund mainly finances: regional employment programs (23% of the total fund), entrepreneurship programs (25% of total fund allocations) and various training contracts together with a monetary allowance (about 52% of total fund). The regional employment programs are considered as failures since they do not take into account the specific needs of the regions and the regional economic context. .

4.2.17 Program Measures: **To define a legal and operational framework for supporting various employment actions, the Government will adopt the comprehensive program to actively accompany job seekers (AMAL).** The program aims at: (i) offering various forms of training in job-bearing sectors; (ii) providing coaching and other active forms of support (e.g. University Graduate Recruitment Contract and Vocational Adaptation and Recruitment Contract) to promote better integration (through traineeship and recruitment opportunities) in positions in public administration and businesses; and (iii) special coaching to enable nearly 5 000 graduates to create their businesses.

4.2.18 **To improve the mechanisms for promoting entrepreneurship, the Government plans to reform the microfinance system and management of Fund 21/21.** It will take the following actions: (i) *publish a roadmap of reforms of the microfinance system, prepared on the basis of a participatory process involving sector actors*; (ii) *adopt a decree transferring management of Fund 21/21 from the President's Office to the Ministry of Vocational Training and Employment*; and (iii) carry out a financial audit and an institutional and organisational evaluation of Fund 21/21.

OBJECTIVE 3: IMPROVING CITIZEN VOICE AND ACCOUNTABILITY

4.2.19 **To prepare free and transparent elections for the first time in the country's history, the authorities are working out a new administration culture by involving the people and ensuring accountability and greater transparency in public affairs.** SITSP will be supporting these changes through concrete and visible measures for the people. Consultations were held with civil society prior to formulating the program.

Objective 3-a. Improving participation

4.2.20 Context and Challenges: **Under the previous regime, citizen participation in public affairs came under strict government control. Therefore, spontaneous participation was not encouraged.** One of the priorities of the transition government is to send a clear signal of change in this area, by taking concrete measures that can be noticed immediately by citizens in terms of government decision making in the areas of social and economic development.

4.2.21 The major aspects of the context and challenges are as follows:

- (i) Freedom of association has been impeded by a restrictive and discretionary legal framework, as well by arbitrary decisions taken by the administration. This has retarded the development of associations, which have thus contributed very little to Tunisia's development process. The importance of their involvement in public policy formulation and implementation is largely recognised today.
- (ii) Although the revolution had initially been triggered by social discontent in the interior, which had been at the losing end of regional disparities compared to the coastal areas, the local communities that should play an important role in short-term actions are hardly operational today, due in part to the lack of political legitimacy of the municipal councils (201 out of the 264 municipal councils are not operational). Without delay, the local authorities must be provided the institutional and financial resources needed to cope with their immediate needs.
- (iii) Lastly, under administrative reforms, the Government recently introduced measures to improve the quality of services provided to citizens. In all, 1,785 services were listed and quality standards set. There have been efforts recently to revive and improve the complaints helpdesk for citizens. These include the citizen helpdesk and the citizen's watchdog services so as to efficiently meet standards and take the perception of the citizens into account in service delivery. Civil society should also participate in this performance evaluation exercise, in its capacity as beneficiary of the services provided, as well as part of its civic duty to promote the culture of the administration's transparency and accountability toward citizens.

4.2.22 Program Measures: These aim at: **(a) promoting the development of civil society and a participatory culture by promoting associations; (b) contributing to restoring the political**

legitimacy of the local authorities through greater civil society participation, to enable them to deliver community services to the public; and (c) strengthening the culture of citizen accountability regarding public services and improving transparency in the publication of information on access and quality of delivery of basic services to citizens. In that regard, the following provision has been made:

- (i) *Revision of the Law on Associations* (1959-154 Framework Law of 7 November 1959, amended in 1988 and 1992);
- (ii) *Establishment of special delegations for the 36 priority municipalities (including Tunis), with significant civil service representation.* To ensure its legitimacy, broad consultations should be carried out at the local level prior to drawing up the list; and
- (iii) *Adoption of a circular instituting a regular monitoring and evaluation mechanism of public services by citizens* (for instance, using evaluation forms) should be adopted. The social programs and relevant public services include: schools, health services and social assistance. This circular will compel public service providers to give access to users and those who will evaluate information on access to basic services, financing and administration. This will enable citizens to assess the performance of such services and publish the results.

4.2.23 The expected outcomes of this measure are improved performance in public services, introduction of operational mechanisms for citizens to assess public services and the institution of a culture of transparency in the administration.

Objective 3-b. Strengthening accountability

4.2.24 Context and Challenges: **This entails breaking with the past practice of censoring for greater transparency and better control over public affairs by citizens, including setting clear and transparent rules.** The context and challenges are as follows:

- (i) Access by the public to information is an essential part of government accountability and within the administration at large. The major constraints to access to information and statistics observed in the past have led to uneven information flow and transaction costs. Limited access to economic and social statistics hampered efficient allocation of resources and tailoring development to the needs of the people;
- (ii) Likewise, transparency of the procurement system is a must if user confidence is to be restored. Additionally, there are numerous prior checks that adversely affect efficiency and cause major delays in implementing public investments, whose economic and social benefits are also delayed;
- (iii) The transparency of public accounts is another way by which the people can check on public authorities. While the Court of Account, which is constitutionally an autonomous body, conducts external audits and management of public finance, the President of the Republic has discretionary powers over the publication of reports from the Court of Account; and
- (iv) Lastly, the implementation of corporate governance rules for the banking sector has been uneven and led to poor risk management and excesses by some banks.

4.2.25 **Program Measures:** This involves making information available to the public, responding to concerns over the transparency of public accounts and improving the governance of banks. In this regard, the following is proposed:

- (i) **Enactment of a decree on access by the public to information held by the administration**, stating the principle of access to information, the main categories of information disseminated by government, via the Internet, especially the objective criteria for information that may be excluded (personal data, legal information, security, etc.) and a clear procedure for access to information (passive and via requests);
- (ii) **Adoption of a revision of the 2002 decree on the “Procurement Code” to improve the effectiveness and transparency of procurement procedures.** This will help to reduce the duration of the contract decision process without affecting its quality and strengthen transparency. The results of contracts awarded through competitive bidding and direct negotiation, as well as decisions regarding the handling of complaints will be published. At the same time, the National Coordination and Monitoring Committee (CNCS) on public procurement reform comprising representatives of the administration and the private sector will be set up. One of the Committee’s initial responsibilities will be to partner with the Bank and the World Bank to conduct an in-depth review and identify areas of reform to improve the performance of the public procurement system;
- (iii) **Systematic publication of the full annual reports of the Court of Account;** and
- (iv) Adoption, in consultation with sector professionals, of a circular on good corporate governance for banks, based on best international practices, while the legal and regulatory frameworks should be improved to introduce selection criteria for the heads, directors and majority shareholders of banks.

PRIOR ACTIONS

4.2.26 **The Government is committed to implementing the following measures prior to submission of the program to Bank Group’s Board of Directors.** A number of the prerequisite measures are required jointly by the Bank and the World Bank, which will submit the program to its Executive Board in June 2011. The authorities will submit proof that these conditions have been met, to the Bank and the World Bank.

Table 4: Actions Prior to Presentation of SITSP to the AfDB Board	
Prior Action 1	Adopt a circular to improve the quality of targeting and extend PAFN coverage
Prior Action 2	Review investment distribution criteria to benefit underserved regions
Prior Action 3	Make an emergency transfer to cover the immediate Title 1 expenditures of local authorities
Prior Action 4	Adopt the active support program for job seekers (AMAL)
Prior Action 5	Adopt a decree to transfer Fund 21/21 from the President’s Office to the Ministry of Vocational Training and Employment
Prior Action 6	Publish the roadmap on microfinance reforms prepared with the participation of microfinance actors
Prior Action 7	Publish in the Official Gazette the establishment of special delegations with civil society participation to replace municipal councils
Prior Action 8	Adopt a circular aimed at strengthening evaluation mechanisms of public services by citizens
Prior Action 9	Adopt an executive order on access by the public to information held by public services
Prior Action 10	Adopt an executive order modifying the Procurement Code
Prior Action 11	Publish the full annual reports of the Court of Account

4.3. Financing Needs and Arrangements

4.3.1. **The social and economic impact of the revolution has had major repercussions on the State budget.** The Government plans to adopt a supplementary Budget Law in May to factor in these repercussions. This will include the emergency economic and social program, as well as social transfers and supplementary subsidies on domestic prices. The rating agencies have downgraded Tunisia's ratings, and for the first time since 2007, the country may have to postpone or limit its entry on the international financial markets that had been slated for 2011. The financing gap for 2011 is nil, following financial assistance from the Bank and other partners. The financing is essential to bridge the gap and to provide the fiscal space needed for activities planned under the Government's emergency program (Table 5).

Table 5: SITSP Financing Needs and Sources of Financing in 2011 (IN TND and USD million)

	2009		2010		2011 (projections)	
	TND	USD	TND	USD	TND	USD
Budget deficit (excluding grants and privatisation)	1766.9	1308.8	841.1	587.8	3239.8	2249.9
External debt redemption	1187.6	879.7	1454.6	1016.5	1929.5	1339.9
Domestic debt redemption	873.5	647.0	1009.5	705.5	370.0	256.9
Financing needs	3828.0	2835.6	3305.2	2309.7	5539.3	3846.7
Financing	3828.0	2835.6	3305.2	2309.7	5539.3	3846.7
Domestic financing	1163.0	1842.5	2026.6	1416.2	2543.8	1766.5
<i>External financing</i>	<i>2665.0</i>	<i>993.1</i>	<i>2080.7</i>	<i>893.5</i>	<i>2775.5</i>	<i>2080.2</i>
<i>including Budget Support (PAI and SITSP)*</i>	<i>382.8</i>	<i>285.7</i>	<i>398.2</i>	<i>276.7</i>	<i>1871.2</i>	<i>1389.3</i>
<i>African Development Bank</i>	<i>167.4</i>	<i>125.0</i>	<i>181.1</i>	<i>125.0</i>	<i>673.4</i>	<i>500.0</i>
<i>World Bank</i>	<i>167.4</i>	<i>125.0</i>	<i>181.1</i>	<i>125.0</i>	<i>673.4</i>	<i>500.0</i>
<i>European Union**</i>	<i>48.0</i>	<i>35.7</i>	<i>36.0</i>	<i>26.7</i>	<i>154.1</i>	<i>114.4</i>
<i>French Development Agency</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>370.3</i>	<i>274.9</i>

* Budget Support comprises the previous joint program (PAI) 2009-2010 and SITSP

** EU disbursement in 2011 comprises the third tranche of PAI (EUR 27 million) and SITSP (EUR 50 million)

Source: Tunisian Authorities, IMF, staff estimates

4.4 Program Beneficiaries

4.4.1. The end program beneficiary is the Tunisian population as a whole, whose conditions of life will improve with better access to social services, jobs maintained and created jobs, and better citizen voice and accountability. The main intermediate beneficiaries are: (i) public departments, which SITSP will support to implement the Government's program; (ii) people in underserved areas, who will have better access to social services; (iii) the unemployed, who will have greater job opportunities; and (iv) the civil population, who will benefit from a higher degree of citizen voice and accountability in public affairs.

4.5 Impact on Gender

4.5.1. **The employment and social assistance reforms under SITSP will benefit working women, young women graduates and women in precarious circumstances.** Women make up 28% of the working population and participate actively in the country's development. They constitute a good part of the labour force in industry and services, and account for 42% of the medical profession and 31% of lawyers while over 10,000 of them are business leaders. They are also politically active, with 28% in Parliament and four holding ministerial positions in 2010. The strides made in women's

rights will be maintained after the revolution, per the regulation on equality in the voters' register for the constituent assembly. Women and young female graduates are the hardest hit by unemployment. Women who head households are a vulnerable segment of the population and make up 51% PAFN beneficiaries.

4.6 Environmental Impact

4.6.1. **The proposed program is a general budget support. It will have no impact on the environment** and has been classified under Category III.

V. IMPLEMENTATION, MONITORING AND EVALUATION

5.1. Implementation Arrangements

5.1.1 **Institution Responsible: Program implementation will be monitored by the Ministry of Planning and International Cooperation (MPCI),** which has successfully implemented previous programs. It will work closely with the sector ministries to implement the program measures. The sector ministries have the means and the competent human resources to implement the program.

5.1.2 **Disbursements: The USD 500 million loan will be disbursed in a single tranche following approval by the Board.** At the request of the Borrower, the Bank will disburse the funds into a special account opened at the Central Bank of Tunisia. The Bank and its partners are committed to providing support to the 2011 Budget following adoption of the supplementary Budget Law. The Ministry of Finance will be responsible for managing the loan.

5.1.3 **Procurement of Goods and Services:** The program is a general budget support, and as such, its implementation does not raise direct procurement issues.

5.1.4 **Financial Management, Audit and Financial Reports: The Ministry of Finance will be responsible for the administrative, financial and accounting management of the loan resources.** Owing to the nature of the operation, resources will be used in line with national regulations on public finance. The public expenditure system will fully be exploited. While evaluation of the fiduciary risk pertaining to this operation has not been conducted in accordance with Bank approach and methods due to the urgency and special circumstances surrounding the operation, the PEFA report, prepared jointly by the Bank, the World Bank and the European Union in 2010, highlights the generally healthy state of Tunisia's public finance management (see Annex VII). For future public finance reforms, special attention should be given to external jurisdictional audit, by holding special sessions devoted to review of the Court of Account report in Parliament.

5.1.5 In the meantime, the program measure aimed at publishing the full reports of the Court of Account, especially its audit reports, is partly intended to address the concern regarding State accountability for public expenditure. The operation will be audited during the review of the Audited Budget, by the Court of Account for 2011 and will be available in 2012. Given the moderate level of the overall fiduciary risk, the program will be supervised in collaboration with other donors and in close consultation with the MPCI. To ensure appropriate supervision for the duration of the program, the quarterly budget execution reports will be sent to partners. Furthermore, within the stipulated period, as per the framework law on finance, the 2011 Audited Budget and the 2011 Court of Account report will be sent to partners.

5.2. Monitoring and Evaluation Arrangements

5.2.1 **Institution Responsible: MPCI, which will work closely with the other key ministries to implement the measures, will be responsible for program monitoring and evaluation.** It has been

involved in the satisfactory monitoring and evaluation of previous programs. It also has competent human resources and is adequately equipped for monitoring and evaluation. The technical assistance to CSOs will help to facilitate interaction and collaboration with the Government.

5.2.2 Monitoring and Evaluation of Outcomes. The matrix of measures agreed jointly between the co-financiers and the authorities will form the common framework for SITSP monitoring and evaluation (Annex 2). MPCCI will be responsible for collecting data and coordinating monitoring and evaluation, and will make information available to the Bank and the co-financiers. The latter plan to field a joint supervision mission to assess progress achieved based on the indicators of the Matrix of Measures. At the end of the program, a completion report will be jointly prepared with the Government. A tentative timetable has been provided under Loan Information (Page v).

VI. LEGAL INSTRUMENTS AND AUTHORITY

6.1 Legal Instruments

The legal instrument to be used for this Program is the Loan Agreement. The parties to this Agreement are the African Development and the Tunisian Government.

6.2 Conditions Associated with Bank Group's Intervention and Conditions for Disbursement

A- *Conditions precedent to presentation of the program to the Boards:* The Government has agreed to implement measures prior to presentation of the program to the Bank Board of Directors. These conditions are listed in Box 1 (§ 4.2.23).

B- *Conditions precedent to loan effectiveness:* Effectiveness of the loan shall be subject to fulfilment of the conditions stipulated in Section 12.1 of the General Conditions Applicable to Loan Agreements.

C- *Conditions precedent to disbursement of the total loan amount:* In addition to evidence of loan effectiveness, disbursement in a single tranche will be subject to provision by the Borrower of evidence of opening a special account at the Central Bank of Tunisia, to receive the loan resources.

6.3 Compliance with Bank Group Policies

6.3.1 The program complies with Bank Group policies and no waiver of the applicable Guidelines has been requested with respect to this proposal. The key Bank Group Guidelines and other guidelines applied to this Program are the following: (i) Guidelines on Reform Support Operations (2008); (ii) Guidelines on Development Budget Support Loans (2004); and (iii) Guidelines on Product and Pricing Flexibility for MICs (2009).

VII RISK MANAGEMENT

7.1 Risk 1 – Political Instability: The transition government has limited time to carry out major and sweeping reforms toward a secure transition. Its legitimacy depends on its ability to implement immediate reforms on issues emanating from the revolution. The risk of political instability remains high, should the transition government fail to answer to popular demand. Specifically, an immediate risk will be in the form of upheavals in connection with the Constituent Assembly elections, the electoral process, the electoral campaign and when results are announced.

- ✓ **Mitigation: The program measures will contribute to the success of the transition, by addressing the social challenges.** The measures that have to do with voice and accountability will also send strong signals about individual freedoms and the changing culture of public administration in terms of increased transparency and opening up to citizens. The measures on employment and social services will help to address the immediate social pressure in order to avoid social tension that could undermine the transition process. Support from institutions such as AfDB, the World Bank, the EU and AFD will also help to ensure the international community's faith in the transition government, and thereby enhance the credibility of the transition process. In addition, this will contribute to offsetting the country's falling ratings with international rating agencies.

7.2 **Risk 2 – Economic Impact of the Revolution:** Preliminary estimates show that the damage caused by the revolution could cost between TND 5 and 8 billion. The budget deficit will be double the initial Budget Law estimate, i.e. 5.2% of GDP, while the current account deficit could reach 7.5% of GDP. Social and salary demands, which continue to paralyze most economic and public activities, are taking a high toll on the economy. In the first quarter of 2011, tourism proceeds and foreign direct investments reduced by 43% and 30%, respectively, compared to the same period in 2010. In 2011, growth will slow down to 1.3% at most.

- ✓ **Mitigation: With significant mobilisation of joint financing by donors, the program will contribute to alleviating the pressure on the budget and the current account.**

7.3 **Risk 3 – Impact of the social unrests in Libya:** The social unrests in Libya has had major repercussions on Tunisia's already weakened economic and social situation in the aftermath of the revolution. An estimated 100,000 Tunisians work in Libya. About 33,000 of these have returned home empty-handed. This places a further social burden on the government, not to mention the additional unemployment. Libya accounts for 7% of Tunisia's exports. In 2010, Libyan visitors to Tunisia numbered 1.8 million, 70% of whom came for medical tourism, which accounts for 24% of the turnover of private clinics in Tunisia. Furthermore, the thousands of returnees arriving each day at the border have exacerbated the already difficult social situation of the region.

- ✓ **Mitigation: Mobilising the international community to provide relief for Tunisians fleeing home would help to mitigate the social and economic impact at the border.** The program will also allow for the integration of the returnees into the system to access jobs and social services.

Table 6. Risks and Mitigation Measures

Types of Risk	Level of Risk	Mitigation Measures
1. Political instability	High	Promote citizen participation and social stability
2. Economic impact of the revolution	High	Substantial financial mobilisation
3. Impact of the social unrest in Libya	High	International mobilisation for Tunisian returnees from Libya and for the region

VIII. **RECOMMENDATION**

It is recommended that the Board of Directors approve an AfDB loan not exceeding USD 500 million to the Government of Tunisia for the purposes and subject to the conditions stipulated in this report.

Tunisia – Integration Support Program (PAI)
Appraisal Report

REPUBLIC OF TUNISIA
MINISTRY OF PLANNING
AND INTERNATIONAL COOPERATION

10 May 2011

Draft Development Policy Letter

On the strength of its revolution, Tunisia is embarking on a new phase of its history marked by its determination to firmly entrench the principles of rule of law and institutions, and adopt a new social contract for development.

With this major change, Tunisia is determined to break with an old model of development entailing separation of the political dimension - marked for long by very strong centralization and lack of democracy - from the socioeconomic dimensions, in which the country has registered unquestionable performances and made great strides, despite certain persistent shortcomings relating to distribution of the national wealth, particularly at the regional level.

A new dawn is breaking for the edification of a new society that will be global and balanced and grounded in liberty, good governance and justice, which are the only factors that can truly release energies, unlock potential and create synergies for sound and sustainable growth, decent jobs and a high level of income equitably shared amongst all the economic agents and different regions, in line with the hopes and aspirations of the Tunisian people.

To this end, the provisional Government is focusing efforts on developing an environment that is conducive to a peaceful political transition and appeasement of the social demands reverberating in the wake of the popular insurrection, and at the same time on the revival of economic activity, intensified job creation and improved living conditions for the underserved regions of the country.

At the political level, far-reaching measures have been deployed to restore trust amongst all stakeholders, carry out free and fair elections, and instil democratic values within Tunisian institutions.

In this context, three independent and neutral committees have been formed to draw up the required political reforms, review all excesses and instances of corruption, and look into cases of abuse and violation of the law. These committees are made up of experts, lawyers and political and civil society representatives, and form part of the new political ethics in the country, now marked by transparency, good governance and the rule of law. In addition, a general amnesty law has been enacted to recognize all the political movements hitherto outlawed and with a view to freeing all political prisoners, in compliance with the rule of law and freedom of expression, association and movement.

The desire for political democratization has moreover been buttressed by the extensive opening up of the media and political landscape, as well as the institution of total freedom of the press and the creation of political parties and associations.

From the economic and social standpoint, priority during this transition period is being given to reviving economic activity, as well as restoring a climate of confidence, to give fresh impetus to national and foreign investment.

Indeed, the instability that reigned in the country during this period has practically ground the economy to a halt. This is seen in the significant decline in several sectors of activity and with regard to tourism and foreign investments, as well as the volume of losses suffered by several businesses and the damage to the public service arising from the strikes and protests witnessed. The situation has been further worsened by the massive return of Tunisians working in Libya and the slump in trade with that country.

This difficult situation has significantly affected the initial trend adopted in the 2011 economic budget. The results expected for the entire 2011 are as follows.

- growth slowing to 1% compared to 5.4% initially envisaged under the 2011 economic budget, in the absence of any recovery measures;
- contraction of the volume of global investments by about MDT 2034 with MDT 1000 for foreign direct investment;
- further widening of the current deficit by about MDT 1525, bringing it to MDT 4119 (6.2% of GDP), as a result of the decline in tourism and transport receipts and a deceleration of goods and service exports;
- an increase in additional external financing needs to the tune of MDT 4200, excluding the cost of damage done during the recent events, which stands at 3 billion dinars;
- mounting pressure on the State budget due to a decline in own resources by about MDT 570 and a MDT 1970 increase in public expenditure (including MDT 1200 for additional clearing expenditure), which would give a 3.2% GDP deficit in addition to the initial deficit projected at 2.5% of GDP;
- a slump in job creation by over 61500 positions, owing to the slackening pace of growth and investment, considering that the initial 2011 Economic Budget projections assumed the creation of 81,000 jobs.

Under the circumstances, the Government has begun implementing an economic activity support program expected to allow for intensified job creation, boost private investment and support businesses that have suffered loss/damage, promote regional development and strengthen social measures to improve living conditions in the hinterland.

The key measures of this program focus on:

- intensification of public service recruitments;
- salary increases in a number of sectors and enterprises in addition to the adoption of social programs for the hinterland regions and needy families (housing, drinking water supply, basic care, etc.);
- strengthening employment and training programs so as to cope with critical situations and enhance the employability of young jobseekers;
- implementation of public investment projects in the hinterland regions (industrial areas, road infrastructure, public utilities, etc.);

- compensation for businesses that have suffered damage, so as to preserve the existing jobs. This entails the government taking over social security costs and part of the financial expenses, postponement of company tax payment, and adoption of a specific mechanism to guarantee rescheduling of credits and loans to fund investments.

Several measures have already been initiated and are on-going:

- Start-up of the “Amal” employment program aimed at helping graduates to enter professional life with a monthly stipend of 200 dinars, subject to an undertaking on their part to engage in associative or part-time work pending availability of a permanent job. In this connection 160,000 application files have already been approved to date, and 38,000 contracts have been signed.
- Drafting of a decree-law on the public service recruitment program, with features such as the shortening of waiting periods from 8 to 2 months;
- Earmarking of an amount of 10.6 million dinars for allocation to 141,000 needy families;
- Assistance to Tunisians repatriated from Libya through disbursement of about 8.2 million dinars to 117,000 beneficiaries;
- Allocation of budgetary credits to the tune of 251 million dinars to the different regions of the country, with priority to Sidi-Bouzyd, Gafsa and Kasserine;
- Infrastructure development in hinterland regions, based on a program for the construction of 1000 km and surfacing of 500 km of feeder roads;
- Enactment of decree-laws in most sectors and establishment of special committees to consider the granting of compensation and benefits to businesses that have suffered damage/loss.

The imminent start of labour negotiations for wage increases in one year is another step towards social normalization in the country, and opens a new page for social reconciliation, improvement of living standards, reduction of existing imbalances, and strengthening of the middle class, which is the engine of economic activity.

This program will give fresh momentum to economic activity, and thereby help to increase the GDP growth rate from 1 to 1.5 additional points as well as create 40,000 new jobs this year, especially for higher education graduates. However, this commitment will require additional external financing of about 4.2 billion dinars.

It should be noted that foreign exchange reserves have declined by 2 billion dinars in comparison to 31 December 2010 levels, and that other due dates for repaying the principal of our debt are expected for this year, particularly a bond issue of 15 billion Yens contracted on the Japanese market.

Accordingly, this program’s contribution towards mitigating the constraints and challenges facing Tunisia will depend on the mobilization of all available resources, the combined efforts of all existing groups, as well as the solidarity of the various national and international community partners and the traditional partners of Tunisia, which can fulfil all these conditions.

First of all, the Government has a fairly comfortable leeway in implementing an expansionary policy, given the country’s sound economic and financial fundamentals and its resilience to external shocks and fluctuating

economic conditions, namely severe climatic conditions, the upsurge in oil and commodity prices, and the outbreak of global financial crises.

Secondly, the institution of a new social pact, as portrayed by the recent establishment of the “National Council for achieving the objectives of the revolution, political reform and democratic transition”, will certainly help to foster a climate of mutual trust, active consultation, constructive dialogue and active participation of all vital forces in decision-making, and strengthen the Government’s commitment to the success of the transition period and preparation for the next step so as to raise Tunisia to an emerging and democratic country and win the confidence of the international community.

Thirdly, Tunisia still counts on its partners to support the people of Tunisia in their efforts in the transition to democracy, the establishment of participatory citizenship, and their aspirations for economic and social development.

Cooperation, which has always been fruitful with Tunisia’s partners, will continue within the present context of multiple financial constraints for which the Government hopes to obtain quick and substantial support in the form of a fast-disbursing operation of ... million dollars /Euros.

This pressing need for external resources in the these exceptional circumstances stems from the absolute necessity to create favourable conditions for transition to democracy and particularly for the smooth conduct of the Constituent Assembly elections, as well as to support the recovery program initiated by the Government, which has already started and will accelerate over the next period after the enactment of the supplementary budget law.

In addition to short-term support actions, a number of avenues for reflection and reform proposals have been identified for implementation in the medium term, so as to strengthen the structural reform process initiated by Tunisia in collaboration with its partners for nearly two decades, and to lay the basis of a sound and free political and economic landscape that is fairly open to best practices and new global demands.

The recovery support program, designed in collaboration with the World Bank, the African Development Bank, the European Union and the French Development Agency, seeks to further enhance the institutional framework at the political, economic and social levels by strengthening good governance and the regulatory framework governing the business environment, intensifying job creation and regional development, as well as strengthening the social sectors.

Accordingly, the program will focus on four main areas: governance, employment and regional development, the financial sector, and the social sectors.

I. Governance

Good governance will seek to make government action more effective and bring it closer to the public and in line with the general interest by strengthening transparency, which ensures healthy competition and curbs discretionary practices, as well as arbitrary and selective decisions. This approach will support the private sector by further promoting ownership rights, protecting investors, improving the business climate and supporting economic growth and consolidating achievements.

Reforms in this area will focus on:

1. Amendment of the law on the freedom of association so as to consolidate the transition by abolishing the major discretionary clauses and restrictions on the creation and functioning of associations, particularly

through replacement of the authorization system with a declaration system, as well as abolition of the classification of associations and the provision limiting the freedom to accept or refuse members.

In the medium term, the legal and regulatory framework of associations and related laws, such as the Penal Code and security laws, will be more comprehensively revised and will be based on consultation with all key stakeholders in the society.

2. Institutionalization of access to administrative documents of government agencies in accordance with the relevant international best practices and standards.

The new regulatory framework will clarify the principle of access to such information and the main categories of information disseminated by the government, particularly through the Internet, as well as define objective criteria for exclusion (personal data, security, etc.) and a clear procedure for access to information.

It will focus on providing key information on the economic sector, statistics, public finance, administrative services, as well as social services and programs.

A general law on freedom of information will be prepared in the medium term. It will include important issues such as the implementation of an appropriate institutional structure.

3. The revision of regulations governing procurement by improving the efficiency and transparency of procurement procedures to shorten the public procurement decision process without compromising quality. The main changes relate to improving efficiency in the overall procurement cycle by reducing delays and revising the jurisdictional thresholds of the Higher Commission of Public Procurements while ensuring transparency, accountability and the regularity of procedures.

At the same time, a thorough review will be jointly undertaken by the donors and the government to ensure structural reform and subsequently reorganize the public procurement system.

4. The adoption of an Order of the Prime Minister initiating and instituting a systemic, participatory, measurable and visible process for reviewing administrative procedures and authorizations in key sectors and services for businesses and citizens in order to simplify procedures and limit the discretionary and arbitrary enforcement of regulations.

It should also be noted that Tunisia has, for over a decade, been implementing an administrative modernization program which has resulted in some achievements, such as the abolition of a considerable number of administrative permits and their replacement with specifications, the development of electronic administration, and the simplification of procedures.

This reform process will continue towards improving administrative formalities and procedures with the involvement of users, based on strategic objectives and clear criteria (legal consistency, necessity, cost efficiency, discretion) and following a predetermined schedule. This approach will focus on sectors essential for building confidence and boosting investment and employment, such as trade, tourism and finance, including customs and taxes.

5. Authorization to publish complete annual reports of the Court of Auditors for the last five years by order of the acting President of the Republic.

6. Change in the naming policy for website hosting following open consultations with the private sector and civil society.

7. The introduction, by Circular of the Prime Minister, of Guidelines describing the technical and methodological criteria for citizen participation in public administrative decisions, through ICT-enabled participation mechanisms (Facebook, online polls, etc.).

II. Financial Sector

Continuing the financial sector reform aims particularly to enshrine good governance, restore confidence in the banking sector and its continued consolidation, as well as to develop micro-credit and venture capital mechanisms likely to foster the development of a modern financial, liberal and efficient system and stimulate the resumption of investment for a strong and sustainable economic growth.

The reforms focus on:

1. The preparation, in collaboration with the sector, of a regulatory framework governing the organization and supervision of micro-finance. A roadmap will specify the areas for future development of the micro-finance system.
2. The adoption, in consultation with the sector, of a circular defining good governance rules for banks based on international best practices and improvement of the legal and regulatory framework in order to introduce criteria for the selection of bank officials, directors and controlling shareholders.
3. Capacity building for credit risk analysis and management by the Central Bank of Tunisia (stress testing of banks) with the aim of ensuring stability in the banking sector.
4. Preparation, in collaboration with the sector, of an amendment to the law on venture capital in Tunisia, so as to expand and relax the investments catalogue, as well as cut taxes and extend the investment period.

III. Employment and Regional Development

The reforms envisaged in this domain aim to strengthen mechanisms for creating paid or self-employment, improving employability and developing the prospects of integration in professional life, especially for higher education graduates in the hinterland and underserved parts of the country.

Essentially, the reforms will mainly focus on:

1. The adoption of a decree to transfer the management of the National Employment Fund (“Fonds 21/21”) to the Ministry of Vocational Training and Employment, as well as to launch a financial audit and develop a monitoring and evaluation system for employment programs financed by the Fund.
2. The adoption of a decree to design and implement a comprehensive active job search program for young graduates (AMAL program) and a short-term employment support program for unskilled workers, as well as improve the employability of vocational training graduates (AMAL 2 program).
3. The adoption by decree of economic measures to protect jobs threatened by business-friendly actions, such as targeted support in the form of subsidies to cover short-term business debts and tax cuts, subject to the volume of jobs to be preserved and the sustainability of beneficiary companies.

4. The institution of procedures for emergency transfers to local governments to address regional disparity. The Tunisian people's revolution that erupted following a social movement in the hinterland regions of the country has highlighted regional disparities. Like any other revolution, it caused property damage, which affected local governments, in particular. This undermined the political legitimacy of municipal councils and brought about a significant reduction in resources, limiting their ability to fulfil their mandate. In the immediate future, it will be crucial to allocate funds to cover the operating budgets of local governments based on objective socio-economic criteria, and to establish special priority delegations to replace municipal councils.

Tunisia's medium and long-term development programs will ensure fair distribution of the country's wealth between the various regions of the country in tune with the objectives of the revolution.

IV. Social Sectors

The program aims to strengthen the institutional framework governing the delivery of basic public services, social transfer mechanisms and assistance programs for needy households and underserved regions of the country through a participatory, targeted and effective approach.

The main measures planned in this area include:

1. The adoption of a circular establishing a monitoring mechanism by committees representing citizens to assess the performance of public services, giving priority to the health, education, social welfare and administrative sectors.
2. The adoption of a circular establishing a program for a local community-based social services package on healthcare, education and social protection with a periodic evaluation system to reduce geographic barriers of access to public services in underserved areas (maternal, child and preventive care and regular follow-up visits by social workers to vulnerable families).
3. The adoption of an instrument establishing a mechanism for the transparent and rational management of drugs to monitor their availability, especially in underserved areas.
4. The adoption of a circular defining eligibility criteria and a weighting method for social welfare programs for needy families (such as PAFN) and new assistance programs for returnees from Libya by integrating exit strategies and mechanisms to ensure transparency.
5. The launching of a financial and technical audit of the National Solidarity Fund (“Fonds 26-26”) and an assessment of its impact.

In conclusion, the Tunisian Government attaches particular importance to the recovery support program during this transitional period, which requires more technical assistance efforts and enhanced cooperation by Tunisia's partners to support the democratization process, maintain social stability and promote economic development. Achieving these objectives would be much easier if the request for a fast-disbursing operation is approved by the WB/AfDB/EU/AFD.

MATRIX OF MEASURES - SOCIAL INCLUSION AND TRANSITION SUPPORT PROGRAM (2011)

Objective	Actions Bold = Prior actions Common conditions = * Donors	Outputs (short-term)	Outcomes (medium-term)	Institutions Responsible
Pillar 1: Reducing Regional Disparities in Access to Social Services				
Sub-objective 1.1 Facilitate access to basic healthcare and social services in underserved regions	Provide local services (health, social assistance...) AfDB/WB	Inter-ministerial circular on the establishment of local services	Access and quality of services are improved in the regions served	MS/MASTE/ME
Sub-objective .2: Extend coverage of social assistance programs to vulnerable families	<i>Improve the quality of targeting and extend coverage of Support Program for Needy Families (PAFN)</i> AfDB	Circular revising the eligibility criteria and extending the PAFN programs to 185,000 families and 31,000 returnees from Libya	The proportion of vulnerable families, 51% of whom are women, benefitting from social assistance programs increases from 5.6% to 7.8 % of the total population	MASTE
Sub-objective 1.3. Promote regional development	Effect emergency transfers to local authorities and governorates AfDB/EU <i>Review criteria for the allocation of investment in underserved regions</i> AfDB/EU	Emergency transfers to local authorities effected for Title 1 Transfers to regional investment projects initiated on the basis of the new distribution of resources between regions	Regional disparities are reduced	Ministry of Interior Ministry of Regional Development
Pillar 2: Promoting Employment Creation and Preserving Existing Jobs				
Sub-objective 2.1. Promote the creation of new salaried jobs	Initiate the special recruitment of civil servants in priority sectors and encourage businesses to create new jobs AfDB/AFD Encourage businesses to create new jobs WB/AFD Public interest work and	Executive order for special recruitment in public administration Executive order on incentives for job creation by the private sector Decree for regulatory	About 40,000 jobs are created in the Civil Service and the private sector in 2011 Number of jobs created for the unemployed	MFPE, Ministry of Finance

Objective	Actions Bold = Prior actions Common conditions = * Donors	Outputs (short-term)	Outcomes (medium-term)	Institutions Responsible
	coaching program for unskilled unemployed AfDB/WB/AFD	framework	without skills	
Sub-objective 2.2: Protect threatened jobs	Improve incentives for businesses AfDB/WB/AFD	Directive establishing a program of fiscal and financial measures for businesses to revive the economy	At least, 30,000 threatened jobs are preserved by end 2011	Ministry of Finance/Ministry of Employment
Sub-objective 2.4: Improve institutional mechanisms for promoting employment	<i>Transfer management of Fund 21/21 from the President's Office to the Ministry of Employment</i> AfDB/EU/AFD <i>Introduce a comprehensive active employment program (AMAL)</i> AfDB/WB/EU/AFD <i>Adopt the roadmap on micro-finance reforms</i> AfDB/EU/AFD	Management of Fund 21/ 21 is transferred from the President's Office to the Ministry of Employment Active coaching, retraining and placement programs are established and operational Micro-finance reform is launched	Management mechanisms, institutional arrangements and organisational mechanisms for job creation are more efficient Long-term unemployment of graduates is reduced through the absorption of 200,000 job seekers The number of micro-finance players is increased	MFPE/FNE MFPE Ministry of Finance
Pillar 3: Strengthening Voice and Accountability				
Sub-objective 3.1 Improve the level of citizen participation	Revise the regulatory framework for freedom of association WB/EU	The articles on the financing and systems of authorisation and classification of associations, of Law on Associations, are amended.	Civil society is more diversified and active	Prime Minister's Office
	<i>Establish the special delegations with the participation of the civil society, to replace the municipal councils</i> AfDB/EU	Executive order on 22 priority municipalities (Tunis and governorate capitals)	The principles of citizen representation and accountability are applied within the municipal councils	Ministry of Interior
	<i>Strengthen the mechanisms for evaluation of public services by citizens</i>	Circular from Prime Minister's Office	Mechanisms operational in 25% of regions	Prime Minister's Office

Objective	Actions Bold = Prior actions Common conditions = * Donors	Outputs (short-term)	Outcomes (medium-term)	Institutions Responsible
	AfDB/WB/EU			
Sub-objective 3.3: Promote access to information	Review regulatory arrangements authorising access to information AfDB/WB/EU	Executive order on access to public information	The principles of transparency are applied in information access, dissemination and publication.	Prime Minister's Office/INS
Sub-objective 3.4 : Strengthen transparency and accountability to citizens	Revise the Procurement Code WB/EU	Revision of Decree 2002 on the "Procurement Code"	The transparency and effectiveness of on-going procurement processes is enhanced	CSM/Prime Minister's Office
	Set up a national committee for the coordination and monitoring of the procurement reform AfDB/WB	Decree establishing the CNCS	Assessment report, based on OECD/DAC methodology, is available	CSM/Prime Minister's Office
	Publish reports of the Court of Account AfDB/EU	The Court of Account reports are published on the website	Transparency in government accountability is enhanced	Prime Minister's Office
	Simplification of administrative procedures based on a participatory approach WB	Decree establishing a Higher Administrative Reform Council	Reform of administrative procedures are initiated in the customs, fiscal, trade and tourism areas	Prime Minister's Office
	Adopt good governance rules in banks AfDB/WB/EU/AFD	BCT circular	Banks have independent boards of directors, independent internal audit structures and better risk management	BCT

**Tunisia—Assessment Letter for the World Bank and the African Development Bank
Macroeconomic Performance and Policies¹²
April 27, 2011**

Tunisia entered the recent political and social turmoil from a relatively solid macroeconomic position, although unemployment remained high. The Tunisian economy experienced a gradual growth recovery and inflation remained moderate during 2010. Real GDP grew at 3.7 per cent in 2010, supported by a rebound in domestic and external demand. Owing to imports recovering at a faster pace than exports, Tunisia's external position deteriorated, with the current account deficit widening to 4.8 per cent of GDP. Reflecting the authorities' fiscal consolidation efforts, the fiscal deficit was reduced to 1.3 per cent of GDP in 2010 and public debt continued to decline to about 40 per cent of GDP. Financial sector indicators improved during the past few years but the banking sector remained weak. Tunisia registered a relatively strong macroeconomic performance in the past few years and the strongest growth in real GDP per capita in the region. However, unemployment remained high (at 13 per cent), especially among young graduates. In addition, economic gains were not widely and fairly shared, which prevented Tunisia to achieve its full potential and further improve the welfare of its entire population. While the short-term outlook will be challenging, the medium-term prospects for economic growth in Tunisia are potentially very favourable.

Economic activity was significantly disrupted during the political and social turmoil. Industrial production declined by 12 per cent in January-February, and tourism receipts by 43 per cent in January-March. External reserves declined from \$9.5 billion at end-December 2010 to about \$8.5 billion (4.1 months of imports) in April 2011, and the stock exchange stabilized at about 15 per cent below its end-2010 level. Inflation continued to decelerate to 2.9 per cent in March (y-o-y), reflecting weaker domestic demand and measures taken to reduce the prices of certain staple commodities. While the internal economic and social situation is stabilizing, the conflict in Libya has put bilateral trade and tourism on hold (Libya is the main trading partner outside the EU, representing 5 per cent of Tunisian exports and 10 per cent of tourism receipts) and about 35,000 Tunisians working in Libya have reportedly returned to Tunisia (about 1 per cent of Tunisia's labour force). The main rating agencies have downgraded Tunisia's credit rating, which, however, remains in the investment-grade category.

The recent turmoil and remaining uncertainties, coupled with exogenous shocks, are expected to have significant negative repercussions on the Tunisian economy in 2011. Owing to the uncertainties related to the political transition until the July elections, compounded by the direct and indirect impact of the on-going conflict in Libya, tourism and FDI—and to a lesser extent exports and remittances—are expected to decline significantly. With banks facing liquidity constraints, domestic investment could also decrease. Under a baseline scenario in which tourism receipts would decline by 40 per cent and FDI inflows by 20 per cent, real GDP growth would significantly slow down to less than ½ per cent in 2011, reflecting the negative spillovers of the contraction in tourism activity on other sectors of the economy. The fiscal stimulus envisaged by the authorities, amounting to about 3.4 per cent of GDP, would help to partially mitigate the impact of the exogenous shocks and could bring real growth up to about 1½ per cent this year. Nevertheless, with lower growth and the return of Tunisian workers from Libya, unemployment could increase substantially this year. With lower domestic demand and subsidies for basic food and energy products, inflation would remain moderate at 4 per cent. Owing to the drop in external receipts,

¹² This assessment reflects the conclusions of a technical IMF mission which visited Tunis during March 16-25, 2011. The last Article IV consultation was concluded in August 2010.

coupled with high international food and fuel prices, the current account deficit would deteriorate significantly to just under 8 per cent. Depending on the external financing that the authorities will receive, official reserves could decline further during the remainder of the year.

The short-term economic outlook for Tunisia is subject to uncertainties and downside risks. Key downside risks to the outlook include uncertainties surrounding the political transition and the duration of the crisis in Libya, which could weigh on tourism and FDI even more than anticipated, possibly resulting in negative growth. Furthermore, the Tunisian government could face capacity and financing constraints for implementing the envisaged fiscal stimulus package thus weakening the short-term growth outlook. On the upside, tourism could recover more quickly than anticipated, other sectors, such as agriculture and energy could contribute to higher growth, and higher external financing would bolster reserves and provide more fiscal space.

Against this challenging backdrop, IMF staff supports the planned fiscal expansion in the short-term, tailored to address social demands, enhance job creation and provide support to economic growth, while preserving medium-term fiscal sustainability. The interim-government has provided some relief measures for households and corporations directly affected by the turmoil during the revolution. Furthermore, social measures targeting poor families and unemployed graduates were introduced. The coverage of social transfers to poor families was broadened and an unemployment program for young graduates was put in place. Subsidies for basic food and energy products to all households are expected to almost double to offset the increases in international market commodity prices. Moreover, a large economic and social support plan (about 2 per cent of GDP) targeting in particular underdeveloped areas and unemployed youth is envisaged. As a result, the fiscal deficit would widen to 4.8 per cent of GDP, despite the mobilization of sizable nontax revenues. Nevertheless, following the significant reduction achieved in the past years, public debt would remain at a sustainable level of 43 per cent. While trying to address pressing needs, it will be important to avoid measures that could result in a sizable increase in the structural budget deficit and weaken fiscal sustainability over the medium term. Furthermore, mechanisms should be put in place to ensure that new social measures are well-targeted.

Mobilizing additional external financing, beyond resources currently identified, will be key to cover budgetary financing needs and support the balance of payments. Under the baseline scenario, Tunisia's budgetary financing needs, reflecting the size of the budget deficit and debt repayment commitments, are expected to reach \$3.7 billion in 2011, about 8 per cent of GDP. Given the deterioration in the current account and the decline in FDI the external financing gap is expected to be \$4.4 billion, about 9.5 per cent of GDP. Based on current indications, the government could receive about \$2 billion of external financing. Additional external resources will be critical for implementing the envisaged fiscal stimulus without crowding out banking sector's financing to the economy. This would also help maintain a level of official foreign exchange reserves (equivalent to about 3.7 months of imports), appropriate to provide a buffer against further exogenous shocks and help preserve credit growth.

IMF staff supports the authorities' accommodative monetary policy to support adequate credit to the economy, while retaining the flexibility to respond quickly to higher inflation or pressure on the foreign exchange markets. In the aftermath of the crisis, the Central Bank of Tunisia (BCT) has promptly intervened to support the banking sector by providing increasing liquidity to the system, with the BCT's funding reaching 48 per cent of banks' capital in March 2011, and lowering the reserve requirement ratio from 12.5 to 5 per cent in two steps. Given the growth and balance of payments outlook,

IMF staff would support a foreign exchange intervention policy that would be more guided by an objective for external reserves and allow greater exchange rate flexibility.

While financial sector indicators improved during the past few years, the banking sector remained weak and subject to vulnerabilities even before the expected economic downturn. With 21 banks and net total assets of 82 per cent of GDP, the banking system is small and fragmented. The three largest and weakest banks are public and represent 37 per cent of deposits. In 2010, credit growth was strong (20 per cent), the loans-to-deposits ratio rose to 115 per cent, and liquidity became tight. At end-2010, the banking system reported a capital adequacy ratio of 12 per cent, and a ratio of nonperforming loans (NPLs) above 12 per cent, with a relatively low provisioning of 50-60 per cent. Preliminary estimates point to a need for recapitalization of banks at end-2010 of about 2 per cent GDP to bring the provisioning of NPLs to an adequate level.

The Tunisian banking sector is exposed to the risk of rising NPLs and liquidity constraints due to possible losses from the economic downturn. The banks' portfolio is likely to deteriorate in 2011 in the context of the economic downturn, especially for banks most exposed to sectors being affected such as tourism and businesses with strong links with Libya. IMF staff recommends that the Tunisian authorities strengthen their contingency plan for the financial sector focusing on three areas: (a) introducing a higher frequency monitoring of banks' liquidity position; (b) carrying out an in-depth diagnostic of the situation of the banking system (including audits, stress tests, and stepping up onsite supervision to track closely banks' solvency); (c) developing an appropriate debtor relief program with strict eligibility rules, supported with budget resources, to avoid default by viable or socially important companies while preserving the stability of the financial sector. At a later stage, a plan should be developed to restructure and recapitalize some banks in needs. Fiscal financing needs and public sector debt could be significantly larger than under the baseline scenario if the authorities decided to recapitalize some of the banks or assume the costs of the recently introduced debtor relief program.

While the BCT introduced a debt rescheduling program in mid-April, the program should be better ring-fenced. The BCT instructed banks to reschedule all loan servicing falling due in 2011 for companies affected by the turmoil and the economic downturn. It also lifted the obligation that banks classify these rescheduled loans so as to be able to extend its refinancing against such loans that could have been classified otherwise. IMF staff recommends to mitigate some risks attached to this measure by: (a) stipulating stringent eligibility criteria to avoid that borrowers who are currently servicing their debt decide to stop repaying their loans and benefit from the rescheduling program, as no penalty would be attached in case of payment arrears; (b) rigorously keeping track of the quality of loans and of actual repayments during this period; and (c) protecting the BCT balance sheet by keeping high standards for eligibility for refinancing operations.

While the short-term outlook will be challenging, the medium-term prospects for economic growth in Tunisia are potentially very favourable if it can capitalize on its strengths and remove obstacles to private sector investment. Assuming continued appropriate macroeconomic policies, improved governance and transparency in the economy could lead to a more efficient allocation of resources and to larger private investment. Together with a well-educated workforce, this would contribute to enhancing potential growth over the medium term and foster job-creation. Higher and more inclusive growth will be critical to addressing over time the challenge of high unemployment, especially among young graduates. The transition government, including with the reform measures supported by the Development Policy Loans to be extended by the World Bank and the African Development Bank, is aiming at laying the ground for Tunisia to achieve this greater potential in a socially equitable way. The support of the international community would contribute to the success of this strategy.

Tunisia - Social Inclusion and Transition Support Program (SITSP) Appraisal Report

Economic Indicators (provided by the IMF Assessment Letter)

Tunisia: Selected Economic Indicators, 2007–12

(Quota: SDR 286.5 million)

(Population: 10.5 million; 2010)

(Per capita GDP: \$4,200; 2010)

(Poverty rate: 3.8 percent; 2005)

(Main export: textiles, electronic and mechanical goods, energy, tourism; 2009)

	2007	2008	2009	2010	2011	2012
Output and Prices						
Real GDP (market price)	6.3	4.5	3.1	3.7	1.3	5.6
Consumer prices (end of period)	5.1	4.0	4.0	4.1	4.0	3.3
Consumer prices (period average)	3.4	4.9	3.5	4.4	4.0	3.3
Investment and Saving						
Gross capital formation	23.8	25.9	24.8	26.4	27.3	26.8
<i>Of which: Nongovernment 1/</i>	18.4	20.1	18.2	19.8	19.3	19.3
Gross national savings	21.5	22.1	21.9	21.6	19.5	21.0
<i>Of which: Nongovernment 1/</i>	18.8	17.1	17.9	16.2	15.8	16.7
Public Finances 2/						
Revenue (excluding grants and privatization)	21.8	23.8	22.8	22.8	24.3	22.7
Expenditure and net lending	24.5	24.8	25.8	24.2	29.1	26.2
Budget balance (excluding grants and privatization)	-2.7	-1.0	-3.0	-1.3	-4.8	-3.5
Budget balance (including grants)	-2.6	-0.7	-2.7	-1.2	-4.5	-3.3
Primary balance (including grants)	-0.2	1.4	-0.7	0.6	-2.8	-1.9
Total government debt	45.9	43.3	42.9	40.4	42.8	42.8
Monetary Sector						
Credit to the economy	9.7	14.0	10.3	19.0	3.6	9.3
Base money	15.3	26.6	12.9	4.9	2.1	4.2
Broad money	12.5	14.4	13.0	11.1	6.8	8.0
Velocity of broad money	1.7	1.6	1.5	1.5	1.5	1.5
One-year treasury bill rate (period average, in percent)	5.5	5.4	4.8	4.4
External Sector						
Exports of goods (in US\$, percentage change)	29.6	26.6	-24.8	14.0	9.2	8.3
Imports of goods (in US\$, percentage change)	26.9	28.7	-22.5	16.8	11.4	9.4
Merchandise trade balance	-7.4	-8.9	-8.2	-10.3	-11.7	-12.5
Current account excluding official transfers	-2.4	-3.8	-2.8	-4.8	-7.8	-5.8
Current account including official transfers	-1.9	-3.6	-2.5	-4.6	-7.6	-5.6
Foreign direct investment	3.7	4.8	3.5	3.1	1.1	2.5
Total external debt	49.3	48.8	48.1	48.7	49.9	48.3
Gross reserves (in billions of U.S. dollars)	7.9	9.0	10.6	9.5	7.7	7.0
In months of next year imports of goods and services	5.0	4.4	6.7	5.1	3.7	3.1
In percent of short-term external debt (on remaining maturity basis)	139.4	158.1	162.3	138.9	107.1	95.2
Memorandum Items:						
Nominal GDP (in US\$ billions)	38.9	44.9	43.5	44.3	46.6	49.0
Unemployment rate (in percent) 3/	12.4	12.6	13.3	13.0	14.7	14.4
Net imports of petroleum products (in millions of U.S. dollars)	-106.8	676.8	112.6	337.7	332.0	170.6
Local currency per U.S. dollar (period average)	1.3	1.2	1.4	1.4
Real effective exchange rate (annual average, percentage change)	-2.1	-1.0	-1.1	-1.1
Stock market index 4/	2,614.1	2,892.4	4,291.7	5,112.5	4,394.8	...

Sources: Tunisian authorities; and Fund staff estimates.

1/ Includes public enterprises.

2/ The fiscal year is the calendar year.

3/ Based on the ILO definition of the labor force.

4/ TUNINDEX (1000=12/31/1997). Latest data: 4/1/2011.

Tunisia - Social Inclusion and Transition Support Program (SITSP)
Appraisal Report

Assessment of Prerequisites for Budget Support in Tunisia

At the general level, the program will help to maintain political and economic stability, which constitute the general prerequisites. The Transitional Government has been set up and is working within a legitimate framework, in compliance with existing institutional arrangements. Its mandate is to lead the transition until the holding of a free and transparent election of the Constituent Assembly scheduled for 24 July 2011. The Constituent Assembly will be tasked with preparing the new constitution and leading the country to elections for the establishment of a democratically-elected government. To guarantee this process, the Transitional Government is committed to implementing this program as it contributes to the political transition and the establishment of a democratic environment in Tunisia. By strengthening voice and transparency, the program will be a first step in responding to popular demand for greater participation and transparency.

At the technical level, Tunisia complies with the technical prerequisites:

- *First*, the Government adopted on 1 April 2011, a set of measures for an emergency economic and social recovery program, which are largely supported by SITSP.
- *Second*, Tunisia has traditionally had a stable and sustainable macroeconomic framework, with an average growth of 4.6% and an average inflation of 3.3% during the last decade. Both fiscal and current account deficits have been kept under control. In March 2011, IMF conducted a macroeconomic assessment mission, and concluded that although Tunisia is currently facing significant pressure from both the fiscal and current account deficits (4.5% and 7.5% of GDP, respectively) there will be no IMF program. Public debt stands at about 43% of GDP while the external debt is estimated at about 49% of GDP in 2011. The IMF called on donors to help close the financing gap for 2011 through budget support.
- *Third*, Tunisia has shown a great capacity to coordinate the work of development partners, and strongly owns its reform programs. The country has some 15 years of experience in joint budget support programs (previously, balance of payments support). The Bank disbursed the second tranche of the former joint program (Integration Support Program) in December 2010.
- *Fourth*, AfDB, World Bank and EU have a long history of joint and harmonized programs, through joint appraisal, supervision and review missions, common matrix and common disbursement conditions.
- *Fifth*, The 2010 PEFA jointly conducted by AfDB, World Bank and EU showed that Tunisia's public finance system is still sound, and the level of fiduciary risk is low.
- *Sixth*, the program's measures will not have significant effects on the environment, forests or other natural resources.

**Tunisia - Social Inclusion and Transition Support Program (SITSP)
Appraisal Report****Status of Good Practice Principles for the Application of Conditionalities**

Principles	Application
Reinforce ownership	<ul style="list-style-type: none">▪ The success of previous programs confirms a high degree of commitment and ownership by the country.▪ The program has been initiated by the Government to try to address the challenges of the transition▪ SITSP hinges on analytical work shared and adopted with Government.
Agee on a coordinated accountability framework	<ul style="list-style-type: none">▪ The Bank and the co-financiers have adopted a coordinated and harmonised accountability framework as in previous programs.▪ The SITSP Matrix of Measures, common to the co-financiers, has been the subject of dialogue between partners and Government.
Customize the accountability framework and modalities of Bank support to country circumstances	<ul style="list-style-type: none">▪ SITSP was formulated urgently to respond to the immediate needs of the transition.▪ Disbursement is planned upon adoption of the program, and the conditions being actions prior to presentation to the Board.
Choose only actions critical for achieving results as conditions for disbursement	<ul style="list-style-type: none">▪ The program measures including actions prior to Board presentation are part of the common donor matrix and were extensively discussed with the authorities.▪ Among these measures, those deemed critical to the achievement of program outcomes are subject to prior actions.
Ensure predictable and performance-based financial support	<ul style="list-style-type: none">▪ Bank financing will be disbursed in a single tranche after the program is adopted by the Board▪ Disbursement will take place after adoption by the Government of the supplementary Budget Act, which takes into account the Bank's commitment.▪ Presentation of SITSP to the Board is subject to fulfilment of the prior actions that will have immediate effects.▪ The agreed SITSP Matrix of Measures is results-oriented. SITSP will be the subject of joint supervision and completion missions.

**SUMMARY OF TUNISIA'S PUBLIC FINANCE MANAGEMENT PERFORMANCE SCORES
PEFA REPORT 2010**

Jointly prepared with the support of African Development Bank, European Union and World Bank

N°	Indicator Content		Remarks/Criteria
PI-1	Aggregate expenditure out-turn compared to original approved budget	B	Variations of +5% (+5.7% in 07 and +8.8% in 08)
PI-2	Composition of expenditure out-turn compared to original approved budget	C	Variations of +5% (+6.4%, +7.2% and +6.8% respectively in 06,07,08)
PI-3	Aggregate revenue out-turn compared to original approved budget	A	> 100%
PI-4	Stock and monitoring of expenditure payment arrears	A	< 2% and information systems in place
PI-5	Classification of the budget	C	Non-functional and heterogeneous
PI-6	Comprehensiveness of information included in budget documentation	A	8 of 9 criteria met; it lacks the financial assets
PI-7	Extent of unreported government operations	A	Privatization revenue is generally budgeted
PI-8	Transparency of inter-governmental fiscal relations	B	Consolidation of CL accounts is on-going through ADEB CL
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	B+	Risk monitoring systems/entities in place. Preparation of a consolidated report on EPA/EPIC/EPS in 2007.
PI-10	Public access to key fiscal information	B	Infra-annual budget execution report and Court of Account reports are not published fully and consistently.
PI-11	Orderliness and participation in the annual budget process	B	Lack of sector packages in budget circular.
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	Existence of a GFOT but no overall MTEF. Lack of real sector MTEFs and interpretation of plan into budgetary terms.
PI-13	Transparency of taxpayer obligations and liabilities	B	Amount of tax exemptions and expenditure, low use of amicable/informal redress procedures.
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B+	Extent of integration of databases and development of a risk management and internal control planning system.
PI-15	Effectiveness in collection of tax payments	A	> 90%
PI-16	Predictability in the availability of funds for commitment of expenditures	C+	Fairly limited budget adjustments common during the fiscal year, but conducted in a fairly transparent manner
PI-17	Recording and management of cash balances, debt and guarantees	A	Complete, frequent and secure data
PI-18	Effectiveness of payroll controls	B+	Degree of integration between payroll and personnel files/frequency of comprehensive audits
PI-19	Competition, value for money and controls in procurement	B	Open bidding <50% based on data provided and ineffective complaints and appeals mechanisms
PI-20	Effectiveness of internal controls for non-salary expenditure	B+	Large number of public administration internal control organs and missions and cost of related transactions
PI-21	Effectiveness of internal audit	B	Arrangements for scheduling audits and degree of implementation of recommendations
PI-22	Timeliness and regularity of accounts reconciliation	B+	Carry-forwards of old balances of imprest and suspense accounts to be cleared.
PI-23	Availability of information on resources received by service delivery units	B	Frequency and degree of consolidation of resources planned and actually received by service delivery units.
PI-24	Quality and timeliness of in-year budget reports	B+	Frequency, time and scope of budget execution reports produced (they cover expenditure authorisation and commitment)
PI-25	Quality and timeliness of annual financial statements	C+	Lack of State financial assets and liabilities, timeframes for submission for auditing >15 months and accounting standards
PI-26	Scope, nature and follow-up of external audit	D+	Scope and timing of external audit
PI-27	Legislative scrutiny of the annual budget law	A	Proceedings, debates and opening to the public of debates and written questions/answers.
PI-28	Legislative scrutiny of external audit reports	C	No sessions devoted to reviewing the Court of Account Report
D1	Predictability of Direct Budget Support	D+	Timing and degree of disbursement of budget support
D2	Financial information provided by donors for budgeting and reporting on project and program aid	B	Completeness of forecasts and report on disbursements
D3	Proportion of aid that is managed by use of national procedures	C	Extent of use of double procedures for procurement from external financing.