

AFRICAN DEVELOPMENT BANK



TUNISIA

COMPETITIVENESS SUPPORT PROGRAMME II (PAC II)

COMPLETION REPORT

**GOVERNANCE,
ECONOMIC AND FINANCIAL MANAGEMENT DEPARTMENT
*JULY 2008***

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This report was prepared on the basis of information available to the Bank and information gathered during the mission fielded to Tunisia in December 2004. It was finalized by Mrs. N. Obayashi, Economist OSGE and a consulting Economist. Questions on this report may be addressed to Mr. G. Negatu, Director, OSGE (Ext. 2077) and Mrs. M. Kanga, Division Manager, OSGE.2 (Ext. 2251).

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ACRONYMS AND ABBREVIATIONS

AAEU	:	Association Agreement with the European Union
ADB	:	African Development Bank
AFI	:	Industrial Land Agency
ATB	:	Arab Tunisian Bank
BCT	:	Central Bank of Tunisia
BH	:	Banque de l'Habitat (Housing Bank)
BIAT	:	Banque Internationale Arabe de Tunisie (International Arab Bank of Tunisia)
BNA	:	Banque Nationale Agricole (Agricole (National Agricultural Bank)
BNDT	:	Banque Nationale pour le Développement Touristique (National Tourism Development Bank)
BS	:	Banque du Sud
BT	:	Banque de Tunisie (Bank of Tunisia)
BTA	:	Fungible Treasury Bonds
BTC	:	Transferable Treasury Bonds
BTEI	:	Tunisia Emirates Investment Bank
BTNB	:	Treasury Bonds Negotiable on the Stock Exchange
BVMT	:	Tunis Stock Exchange
CGA	:	General Insurance Committee
CMF	:	Financial Market Council
CMSB	:	Banking Sector Modernization
CNF	:	National Tax Council Commission)
DGA	:	General Directorate for Insurance
DGP	:	Directorate-General of Forecasts
EU	:	European Union
FREP	:	Public Enterprises Restructuring Fund
GAT	:	Tunisian Insurance Group
GDP	:	Gross Domestic Product
ICT	:	Information and Communications Technologies
IEQ	:	Institute of Quantitative Economics
IMF	:	International Monetary Fund / Investments in Transferable Securities
ISAP	:	Industrial Sector Adjustment Programme
MFA	:	Multi-Fibre Agreement
MTC	:	Ministry of Technology and Communication
MTND	:	Million Tunisian Dinars
NFA	:	National Frequency Agency
NPL	:	Non-performing Loans
OPCVM/UCITS	:	Undertakings for Collective Investments in Transferable Securities
OPV	:	Public Offering of Shares
PCR	:	Programme Completion Report
PRREF	:	Economic and Financial Reform Programme
SAP	:	Structural Adjustment Programme
SICAF	:	Closed End Investment Trust
SICAV	:	Open-ended Investment Trust
SINDA	:	Automated Customs Information System
STAR	:	Tunisian Insurance and Reinsurance Company
STB	:	Tunisian Banking Company
SVT	:	Primary Dealers
UA	:	Unit of Account
UIB	:	Union Internationale de Banques (International Banking Union)

CURRENCY EQUIVALENTS

Appraisal (June 2001)

UA 1 = TND 1.8204

UA 1 = Euro 1.47904

UA 1 = US\$ 1.25423

Completion (Nov. 2004)

UA 1 = TND 1.85005

UA 1 = Euro 1.17671

UA 1 = US\$ 1.49878

FISCAL YEAR

1 January to 31 December

BASIC PROGRAMME DATA

1. Programme Name: Competitiveness Support Programme II (PAC II)

1. Loan Agreement Number	2000130000017
2. Borrower	Tunisian Government
3. Beneficiary	Tunisian Government
4. Executing Agency	Ministry of Development and International Cooperation

2. Loan Data

LOAN	ESTIMATED	ACTUAL
1. Loan Amount	Euro 216 million	Euro 180 million
2. Interest Rate	5.745 % fixed rate for the 1 st tranche (Euro). 4.832 % fixed rate for the 1 st floating tranche (Euro). 4.664 % fixed rate of for the 2 nd floating tranche (Euro).	5.745 % fixed rate for the 1 st tranche (Euro). 4.832 % fixed rate for the 1 st floating tranche (Euro). 4.664 % fixed rate for the 2 nd floating tranche (Euro).
3. Repayment	In (30) equal and consecutive half-yearly payments beginning from the sixth year after the date of signature of the loan agreement.	In (30) equal and consecutive half-yearly payments beginning from the sixth year after the date of signature of the loan agreement.
4. Grace Period	5 years	5 years
5. Appraisal Date	May 2001	May 2001
6. Date of Negotiations	November 2001	November 2001
7. Board Presentation Date	November 2001	28 November 2001
8. Approval Date	November 2001	28 November 2001
9. Signature Date	November 2001	29 November 2001
10. Start-up Date	December 2001	December 2001
11. Effectiveness Date	December 2001	27 December 2001
12. Date of Supervision Missions	-	08 to 15 December 2002 12 to 17 October 2003
13. Completion Mission Date	March 2005	December 2004
14. Deadline for Last Disbursement	31 December 2004	31 December 2004
15. Closing date	31 December 2004	31 December 2004

3. Sources of Finance

(in million Euro)

PROGRAMME DATA	ESTIMATED	ACTUAL	DIFFERENCE
ADB	216	180	36.0
World Bank	281	236.50	44.5
European Union	80	67.4	12.6

4. Disbursement of ADB Loan

DISBURSEMENTS	ESTIMATED		ACTUAL		DIFFERENCE in millions
	Date	Amount in loan currency in Euro	Date	Amount in loan currency in Euro	
1 st tranche	January 2002	108,000,000	28/12/2001	108,000,000	0.0
2 nd tranche/1 st floating tranche	December 2002	36,000,000	21/01/2004	36,000,000	0.0
2 nd tranche/2 nd floating tranche	December 2003	36,000,000	10/08/2004	36,000,000	0.0
2 nd tranche/3 rd floating tranche	June 2004	36,000,000	-	0,0	36.0
TOTAL		216,000,000		180,000,000	36.0

5. Performance Indicators

1. Undrawn Balance (in percentage of approved amount)	-16.67 %
2. Time Underrun/Overrun	0
- Slippage on Effectiveness	0
- Slippage on Completion Date	0
- Slippage on Last Planned Disbursement	0
Status of Programme Implementation	Completed
Completion Indicator	80 %
Institutional Performance	Satisfactory
Borrower's Completion Report	Not fulfilled

6. Missions

Missions	Number of Missions	Number of Persons	Composition	Staff/Weeks
1. Identification	01	03	1 Economist 1 Financial analyst 1 Financial Economist	06
2. Preparation	01	03	1 Economist 1 Financial analyst 1 Financial Economist	06
3. Appraisal	01	03	1 Economist 1 Financial analyst 1 Financial Economist	06
4. Supervision and Monitoring	01 01	02 02	1 Economist 1 Financial Analyst	04
5. ADB/PCR	01	02	1 Financial Analyst 1 Financial Economist	02

TUNISIA: PAC II - PROGRAMME LOGICAL FRAMEWORK MATRIX

HIERARCHY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	PROGRAMME COMPLETION INDICATORS	MEANS OF VERIFICATION	KEY ASSUMPTIONS AND RISKS
<p><u>I. MACRO-ECONOMIC OBJECTIVE</u></p> <p>1.1 Maintain a stable macro-economic framework</p> <p>1.2 Institutional capacity building</p>	<p>1.1.1 The GDP growth rate was 5.5 % in 2002 and 6.0 % in 2003.</p> <p>1.1.2 The inflation rate was 2.5 % in 2002 and 2.7 % in 2003.</p> <p>1.1.3 The budget deficit to GDP ratio was 3.3 % in 2002 and 3.3 % in 2003;</p> <p>1.1.4 The current account deficit was 4.2 % in 2002 and 4.4 % in 2003.</p> <p>1.2.1 The adoption of a Plan of Action for dynamic debt management.</p> <p>1.2.2 Establishment of the CNF</p>	<p>1.1.1 The GDP growth rate was 1.7 % in 2002, 5.6 % in 2003, and 6.0 % in 2004</p> <p>1.1.2 The inflation rate was 2.8 % in 2002, 2.8 % in 2003, and 3.6 % in 2004</p> <p>1.1.3 The budget deficit was 3.5 % of GDP in 2002, 3.5 % in 2003, and 2.9 % in 2004</p> <p>1.1.4 The current account deficit was 3.5 % of GDP in 2002, 2.9 % in 2003, and 2.0 % in 2004</p> <p>1.2.1 The Plan of Action was adopted</p> <p>1.2.2 The CNF was established</p>	<p>Economic budget</p> <p>Annual report of the Central Bank</p> <p>Budget Act</p> <p>Annual Report of the Central Bank</p> <p>Plan of Action</p> <p>Decree establishing it</p>	<p>Conduct of a healthy economic policy</p>
<p>II. SECTOR GOAL</p> <p>2. Increase the private sector's contribution to national growth and competitiveness of the economy</p>	<p>2.1 At least 3 % increase a year between 2002 and 2003 in private investments.</p> <p>2.2 Increase in investment rate to 27.7 % in 2002 and to 28.7 % in 2003.</p>	<p>These objectives were not attained. The share of private investments remained at 55 %.</p>	<p>Annual report of the BCT</p> <p>Annual report of the Competition Observatory</p>	<p>Government commitment to pursue the reforms.</p>
<p>III. OUTPUTS</p> <p>3.1 Business environment improved</p>	<p>3.1 Number of administrative, customs and fiscal formalities reduced and/or simplified. Access to the intervention system (Website) of the administration.</p>	<p>3.1.1 54 % reduction of 500 administrative authorizations for the creation of private companies.</p> <p>3.1.2 The time for administrative formalities was reduced from 2-3 days to 15 minutes.</p> <p>3.1.3 The period for full VAT credit refund to exporters reduced to less than 30 days</p> <p>3.1.4 An internet site was set</p>	<p>Official Gazette</p>	<p>Government commitment to implement sector development strategies and policies.</p>

HIERARCHY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	PROGRAMME COMPLETION INDICATORS	MEANS OF VERIFICATION	KEY ASSUMPTIONS AND RISKS
<p>3.2 Better company governance. Privatization of companies and opening of many State enterprises to the private sector.</p> <p>3.3 Telecommunications and Information technology sector competitive</p> <p>3.4 Greater Bank resource mobilization by the private sector; improvement of capital market</p>	<p>3.2 Reliable information on companies. Privatization of the Banque du Sud, UIB, opening up at least 10 % of SNDP and Tunisia Telecom capital to the private sector; Transfer of some ONH activities to the private sector.</p> <p>3.3 Increase in number of operators in the sector, particularly a 2nd GSM operator; tariff reduction linked to competition and better service quality. Greater contribution of the sector to GDP.</p> <p>3.4 Greater access to Bank credit; adoption of a Plan of Action for the improvement of access to capital markets.</p>	<p>up to facilitate the creation of companies.</p> <p>3.2 Privatization of the UIB</p> <p>3.3 A 2nd GSM operator was introduced, tariffs reduced and service quality improved.</p> <p>3.4 Impacts were limited in terms of improved credit access. The Plan of Action was not adopted by the CMF</p>	<p>Adopted texts</p> <p>Central Bank report</p> <p>Activity report of Banks concerned</p> <p>Government communiqué</p> <p>Government communiqué</p> <p>Report on the study envisaged with the support of the World Bank and financial assistance of Japan</p> <p>Government's Plan of Action document</p> <p>CMF Annual report</p>	<p>Government commitment to implement sector development strategies and policies</p>
<p>ACTIVITIES</p> <p>Submission, adoption of laws by the Chamber of Deputies. Adoption of executive orders; Publication of acts on the various measures, launch of privatization tenders. Examination and adoption of restructuring plans of insurance companies</p>	<p>FINANCING</p> <p>ADB: UA 150 million World Bank: US\$ 250 million EU: Euro 80 million</p>	<p>Disbursement by the co-financiers, save the floating ICT tranche of the second tranche</p>	<p>Signed loan agreements</p> <p>Official Gazette</p> <p>BCT Annual report</p>	<p>Lender financing available</p>

EXECUTIVE SUMMARY

1. Competitiveness Support Programme II (PAC II) was in keeping with the continuity of the Bank's operations aimed at supporting the efforts of the Tunisian authorities concerning their strategy for the reform of the Tunisian economy with a view to its integration into the Euro-Mediterranean Free Trade Zone further to the signing of the Association Agreement with the European Union (AAEU). PAC II was a follow-up to PAC I, whose overall objective was to consolidate the bases for a competitive economy and allow sustainable growth of the Tunisian economy by making capital allocation more effective, strengthening the capital base of banking sector institutions, and modernizing the regulatory framework of the financial sector with a view to improving its intermediation capacities. The programme comprised 19 measures broken down among the following five components: (i) restructuring/modernization of the Banking system; (ii) related reform of public and parastatal enterprises; (iii) revitalization of the Treasury securities market; (iv) modernization of monetary management instruments; and (v) strengthening of insurance companies and OPCVM (Undertakings for Collective Investment in Transferable Securities (UCITS)). PAC I was implemented satisfactorily in 2001. In the same way as PAC I, PAC II was designed as a joint programme with a common matrix of measures and disbursement conditions, with the World Bank and the European Union.
2. PAC II had the overall objective of consolidating the bases of a competitive economy with a view to enabling Tunisia attain a high and sustainable growth rate as a result of maintaining a stable macro-economic framework and improving private and financial sector competitiveness. Its specific objective was to increase the private sector's contribution to the growth and competitiveness of the economy. The programme comprised 51 measures, including 28 disbursement conditions broken down into four sub-components: (i) the macro-economic framework; (ii) the business and private investment environment; (iii) the consolidation of the insurance and financial sectors; and (iv) ICT sector reform.
3. The quality of preparation and coordination between the cofinanciers was demonstrated by the manner in which the donors and the Government reacted to the events of 11 September 2001 which represented a considerable external shock for Tunisia in terms of a reduction in tourist revenue for example. The cofinanciers adapted themselves to the new context by introducing flexibility into disbursement with a view to alleviating budgetary pressures. Thus, the initial second tranche was replaced by three floating tranches to make it possible to disburse the sub-tranches as soon as the measures corresponding to each sub-component were adopted. In terms of programme implementation, mainly as a result of sound preparation, the loan became effective and the first tranche was disbursed one month after loan approval by the Board of Directors. On the other hand, two of the three floating tranches of the second tranche, were disbursed, including one on the business environment, with a waiver. The floating tranche on information and communication technologies was not disbursed.
4. Notwithstanding a few problems in fulfilling some of the conditions of the second tranche, most of the measures were implemented. Overall, PAC II was satisfactorily implemented and achieved the expected development objectives. At macro-economic level, the programme contributed to ensuring stability, improved external debt management, and the preparation of a plan to broaden the tax base in order to make government finances more flexible and viable in the long-term. It improved the business environment by making the economy less administered by lifting administrative barriers to investment, recasting competition law and strengthening the regulator, and through the State's gradual disengagement from the strategic

sectors. In the ICT sector, PAC II developed the supply of services with private sector participation and opening up of the market, which in turn contributed to improving the private investment environment. In the financial sector (Banks, insurance and capital market), the programme helped to enhance the efficiency of financial intermediation services through the restructuring and modernization of the insurance sector and by ensuring a better distribution of roles between the banks and financial markets, while modernizing the management of doubtful bank loans and improving the governance of public banks. Nonetheless, the impacts of some reforms will be felt only in the medium and long term through sustained reforms, especially for the banking sector and the roles of the newly created structures.

Conclusions

5. The Bank and the other co-financiers supported the Tunisian Government in the implementation of the PAC II reforms. The Government implemented a large number of the measures, which led to a stable macro-economic framework capable of resisting exogenous shocks, and a more competitive, and consequently more efficient, economic environment, which led to an improvement in the competitiveness of the Tunisian economy. This performance was mainly attributed to the political will of the Government, as well as the smooth coordination between the cofinanciers and with the Tunisian authorities. The close involvement of the Tunisian authorities right from the programme design phase led to a high degree of ownership and ensured the success of its implementation, although the pace of reforms was relatively slow. The programme therefore facilitated the opening up of the economy in a climate of globalization. These reforms should therefore be pursued and deepened so as to consolidate the competitiveness of the Tunisian economy.

Lessons Learnt

6. The following lessons can be drawn from the experience in the implementation of PAC II:
- the success of a programme depends on its smooth preparation on the basis of the economic and sector work carried out, with the careful targeting of reforms and coordinated policy and macro-economic and structural reform implementation;
 - loan conditions that are examined thoroughly and consensually with the authorities and are clearly formulated with precise verification criteria, facilitate their fulfilment and speed up loan effectiveness and programme implementation;
 - the disbursement procedures of the Bank (including the waiver) were slow in relation to the other cofinanciers; and
 - an administration endowed with stable and competent teams, highly committed to both the design and implementation of the reforms, as well as ownership of the reform programme by the Borrower, constitutes a major asset for reform implementation and programme success.

Recommendations

For the Bank:

- (i) as regards the waiver and the setting of disbursement conditions: (a) privatizations in the strategic sectors should be subject to prudence and in-depth dialogue before they are considered as disbursement conditions (SNDP); (b) conditions likely to be influenced by Parliamentary adoption processes (case of implementing texts for the Companies Act which were not adopted by Parliament) must be avoided; (c) the objectives to be attained must be targeted rather than the processes, whenever a strategically sensitive political and economic choice needs to be made (such as the granting of GSM licences) (§ 3.2.6 - §3.2.7);
- (ii) cooperation must be pursued between the cofinanciers with a view to an effective coordination of programme activities, especially by joint missions and concurrent examination of documents on the implementation of the measures, which constitute the guarantee of the success of reforms of such magnitude (§ 2.4 - §3.4);
- (iii) policy dialogue must be pursued and deepened with the Tunisian authorities with a view to consolidating the reforms undertaken under PAC I et II (§6.1 - § 6.2, § 8.2); and
- (iv) the Bank's responsiveness must be improved, especially in terms of disbursement procedures and mechanisms (§ 7.1 - § 7.3).

For the Government:

- (i) the feasibility of disbursement conditions domestically and in terms of timetable should be thoroughly examined (§ 3.2.6 - §3.2.7);
- (ii) the consolidation and acceleration of reforms already undertaken, as well as those not fully implemented, must be pursued and consolidated with a view to strengthening competitiveness in the context of the gradual opening up of the economy in the face of globalization (§6.1 - § 6.2, § 8.2).

I. INTRODUCTION

1.1 Following the consolidation of macro-economic stability with the structural reforms of the nineties, Tunisia embarked on new reforms aimed at improving the competitiveness of the Tunisian economy by expanding the productive base and promoting employment and exports. It was against this backdrop that PAC I was designed and implemented. Thus, the 10th 5-year economic development plan (2002-2006) was mainly targeted at raising the private sector's share in overall investments from 55 % in 2001 to 58.5 % by the end of the Plan in 2006.

1.2 Discussions concerning PAC II began during the implementation of PAC I. It was designed mainly on the basis of two studies: a World Bank study on the private sector (Private Sector Assessment Update – Meeting the Challenge of Globalization -14 December 2000), and a Bank study funded with a Japanese grant relating to the insurance sector. PAC II was designed within a precise macro-economic framework comprising economic objectives and underpinned by sector reforms aimed at strengthening private sector competitiveness and the financing of the economy.

1.3 PAC II follows on from previous operations of the Bank and other donors to support the reform process in Tunisia. The Bank therefore granted a series of structural adjustment programmes, namely, the Industrial Sector Adjustment Programme (ISAP) in an amount of UA 80 million in 1987; the Structural Adjustment Programme (SAP) in an amount of UA 75 million in 1989; and the Agricultural Sector Adjustment Programme (ASAP) in an amount of UA 90 million in 1991. The need to consolidate the achievements of these different programmes led to the preparation, in 1994, of the Economic and Financial Reform Programme (EFRP) whose implementation was supported with a Bank loan in the amount of UA 80 million and with financing by the World Bank and the European Union. In 1999, the Bank lent financial support (UA 100 million) to the first Competitiveness Support Programme (PAC I) covering the 1999-2001 period, which was cofinanced by the World Bank (US\$ 160 million) and the European Union (Euro 80 million).

1.4 The overall objective of PAC I was to consolidate the bases of a competitive economy and create sustainable growth of the Tunisian economy, by make capital allocation more effective, strengthening the capital base of banking sector institutions, and modernizing the regulatory framework of the financial sector with a view to improving its intermediation capacities. The programme comprised 19 measures broken down into the following five components: (i) restructuring/modernization of the banking system; (ii) the related reform of public and parastatal enterprises; (iii) the revitalization of the Treasury securities market; (iv) modernization of monetary management instruments; and (v) the strengthening of insurance companies and OPCVM (Undertakings for Collective Investment in Transferable Securities (UCITS)). PAC I was satisfactorily completed in 2001.

II. PROGRAMME OBJECTIVES AND FORMULATION

2.1 Programme Objectives and Description

2.1.1 PAC II had the overall objective of pursuing the reforms begun under PAC I, consolidating the bases of a competitive economy and ensuring sustainable growth of the Tunisian economy. Its specific objective was to support private sector development by improving the business environment and conditions for the financing of the sector, as well as coverage of its non-commercial risks.

2.1.2 To attain these objectives, the programme had two main components, namely: (i) the macro-economic framework; and (ii) private sector competitiveness and the financial sector. These two major components comprised four sub-components: (a) the macro-economic framework; (b) the business environment and private investment; (c) strengthening of the financial and insurance sectors; and (d) reform of the information and communication technologies (ICT) sectors.

2.1.3 PAC II was in keeping with the Bank's strategy as defined in the Country Strategy Paper for the 2002-2004 period which targeted reform support as a priority area, especially the improvement of the business environment and the development of capital markets, two focal areas of the programme.

2.2 Programme Origin and Formulation

With a view to achieving strong, sustained and sustainable growth on the basis of a balance between public and private sector roles, Tunisia opted for a market economy and gradual integration into the global economy. In that context, it concluded in 1995, an Association Agreement with the European Union (AAEU) which entered into force on 1 March 1998. It was in the desire to achieve integration that the Government prepared the PAC with a view to upgrading Tunisian companies to help them face competition. Discussions regarding PAC II began during the supervision of PAC I, mainly backed by two studies: a World Bank study on the private sector (Private Sector Assessment Update –Meeting the Challenge of Globalization (2000)), and a study on the insurance sector conducted by the Bank and financed by the Japanese grant. The programme was formulated with a specific macro-economic framework comprising the economic objectives to be attained, and underpinned by sector reforms aimed at strengthening private sector competitiveness and financing of the economy.

2.3 Preparation, Appraisal, Negotiation and Approval

2.3.1 PAC II was formulated following a process of consultation and coordination between the Bank, the World Bank, the European Union and the Government, based on experience gained in the implementation of previous programmes. This enriched the programme content and facilitated its financing. The programme matrix was jointly formulated and adopted by all the cofinanciers. The Bank appraised the programme in May 2001 and negotiations were held with those of the World Bank and the EU in November 2001. The ADB loan was approved on 28 November, signed on 29 November, and became effective on 27 December 2001.

2.3.2 The quality of preparation and coordination between the co-financiers was illustrated by the manner in which the donors and the Government reacted to the events of 11 September 2001, which represented for Tunisia a considerable external shock in terms of a reduction in tourist revenue for example¹. The co-financiers adapted to the new context by introducing some flexibility into disbursement with a view to alleviating budgetary pressures. The initial second tranche was consequently replaced with three equal tranches to make it possible to disburse sub-tranches once the measures corresponding to each tranche were adopted.

III. PROGRAMME IMPLEMENTATION

3.1 Effectiveness and Release of the First Tranche

3.1.1 Apart from the general conditions applicable to agreements concluded with the Bank, loan effectiveness and the disbursement of the first tranche were subject to the fulfilment of the 14 conditions below:

- i) provide the Bank with evidence of the finalization of the terms of reference for the study on private investment promotion;
- ii) provide the Bank with evidence of the submission to the Chamber of Deputies of the Code of Fiscal Rights and Procedures;
- iii) provide the Bank with evidence of the tabling of the Bill on Groups of Companies before the Chamber of Deputies;
- iv) provide the Bank with evidence of the submission to the Chamber of Deputies of the draft amendment to the Code of Civil and Commercial Procedures on debt recovery;
- v) provide the Bank with evidence of the inclusion in the 2002 Budget Bill of a Tax Code amendment to ease the conditions for the write-off of classified claims by reducing to two years the period during which a classified claim has not recorded any credit movement;
- vi) provide the Bank with evidence of the submission to the Chamber of Deputies of the draft amendment of the Insurance Code mainly relating to the definition of group life insurance, bank assurance authorization and the abolition of prior authorization to carry out on-site inspections;
- vii) transmit to the Bank the decree on the separation, within the Directorate General of Insurance (DGA), of the supervisory authority from the sector control authority;
- viii) transmit to the Bank, for approval, a draft plan of action accompanied by a timetable for building the human and material capacity of the DGA for the performance of its control functions:

¹ There was a 13.5 % decline in tourist revenue in 2002. The 2002 growth forecast was revised downwards to 4.9 % of GDP at the end of 2001, against 5.8 % initially, and was finally only 1.7 %.

- ix) provide the Bank with evidence of at least an 8 % increase in Motor Third Party Liability (MTPL) insurance premia;
- x) transmit to the Bank technically acceptable scenarios for restructuring the most distressed insurance company at 31/12/2001, precluding use of the Guarantee Fund resources;
- xi) provide the Bank with evidence of the adoption of the implementing texts of the new Telecommunications Code, especially, (a) the Decree on Interconnections; (b) the Decree on Easements, (c) the Decree on the Certification of Telecom Equipment; and (d) the Ministerial Order on Numbering;
- xii) (a) provide the Bank with evidence of the creation of a National Telecommunications Authority (INT) with the status of an independent organ and a National Frequency Agency placed under the responsibility of the Ministry of Communication Technologies; and (b) transmit to the Bank a draft amendment of the Telecommunications Code on the status and autonomy of the INT;
- xiii) provide the Bank with evidence of the adoption of the Law on E-commerce as well as the implementing texts of the said Law, including personal data protection measures; and
- xiv) provide the Bank with evidence (a) of the launching of international competitive bidding for the award of a second GSM license; and (b) shopping for the selection of a merchant bank of international repute to support the administration in this selling operation.

3.1.2 Despite their high number, all the conditions were rapidly fulfilled, which demonstrates the quality of the preparation. Consequently, the loan became effective and the first tranche of Euro 108 million was released on 28 December 2001, i.e. one week after loan approval.

3.2 Conditions for the Release of the Second Tranche

3.2.1 The second tranche of the loan was subdivided into three floating tranches, each linked to the following sub-components: (i) the business environment and private investment (7 conditions); (ii) financial sector strengthening (4 conditions); and (iii) the information and communication technologies sector (3 conditions).

3.2.2 The sub-division of the second tranche of the loan into three floating tranches led to greater flexibility in the management of budget constraints and financing of the balance-of-payments with a view to mitigating the impacts of 11 September 2001. Moreover, the structure per component of sub-tranches led to greater sector consistency within the programme by ensuring that a sufficient number of reforms were implemented prior to the disbursement of each sub-tranche.

3.2.3 The disbursement of the floating tranche relating to the *business environment and private investment*, in the amount of Euro 36 million, was subject to the fulfilment of the following seven conditions:

- (i) provide the Bank with evidence of the finalization of the study and adoption, by the Government, of a Plan of Action for promoting private investment on the basis of the conclusions of the study;
- (ii) provide the Bank with evidence of the adoption of the implementing texts provided for by the Code of Fiscal Rights and Procedures;
- (iii) provide the Bank with evidence (i) of the adoption of the implementing texts for the Companies Act (Company Code) and (ii) of the publication of the new accounting standards on consolidation and on groups of companies;
- (iv) provide the Bank with evidence of the launching of international competitive bidding for the disposal of all State shareholdings in the capital of the International Banking Union (UIB) and the Banque du Sud;
- (v) provide the Bank with evidence of the opening up of at least 25 % of the capital of a State enterprise to a strategic partner;
- (vi) provide the Bank with evidence of the adoption of a strategy for private sector participation in infrastructure; and
- (vii) provide the Bank with evidence of the conduct of a study on import monopolies.

3.2.4 The disbursement of the floating tranche relating to the ***strengthening of the financial sector and insurance sector***, in an amount of Euro 36 million, was subject to the following conditions:

- (i) transmit to the Bank a report on the provision of the necessary human and material resources for the performance of the control functions of the Directorate-General of Insurance in keeping with the plan of action;
- (ii) provide the Bank with evidence (a) of a 3 % increase in 2002 of motor third party liability insurance premia and (b) preparation of a medium-term plan aimed at eliminating the deficit of the motor third party liability insurance line;
- (iii) provide the Bank with evidence of the submission to the Chamber of Deputies of draft amendments to Law 60-21 of 21/11/1960 and Law 62-23 of 30/08/62 instituting a new compensation system; and
- (iv) (a) provide the Bank with evidence of the initiation of the restructuring of the most distressed Tunisian Insurance company; and (b) transmit to the Bank the control authority's agreement on the recovery plans envisaged for under-capitalized and underprovisioned Tunisian insurance companies.

3.2.5 Regarding the disbursement of the floating tranche relating to *Information and Communication Technologies (ICT)*, in the amount of Euro 36 million, the conditions to be fulfilled were:

- (i) provide the Bank with evidence (a) of the publication of a medium-term liberalization of the telecommunications sector, and (b) the selection of a merchant bank to support the administration in the grant of at least one VSAT license;
- (ii) provide the Bank with evidence of the tabling of a bill before the Chamber of Deputies of a Bill supplementing the Telecommunications Code relating to the autonomy of the INT; and
- (iii) provide the Bank with evidence (a) of the award of a second GSM license through a competitive and transparent bidding process, and (b) of the publication by Tunisia Telecom of a standard interconnection bid approved by INT.

3.2.6 Overall, the conditions for the release of the first two floating tranches were fulfilled except for the following conditions relating to the business environment, in respect of which a *waiver* sought by the Government was granted by the Bank:

- adoption of implementing texts for the Companies Act: since the Bill was under consideration by Parliament at the time of programme completion, it was not possible to fulfil the condition for the disbursement, and only after Parliament's adoption of the draft amendment of the Company Code was it fulfilled. The law on financial security which defines the new standards for groups of companies was adopted in 2005;
- opening up of 25 % of the capital of a State enterprise to a strategic partner: the authorities adopted the principle of opening up 35 % of the capital of SNDP to a strategic partner, and embarked on the process of initiating shopping in January 2004 to recruit a merchant bank to assist them in the conclusion of the transaction;
- formulating a strategy for private sector involvement in infrastructure: it was not possible to fulfil this condition during the programme since the Government had opted for the conduct of a study and organization of a National Workshop (March 2004) with a view to formulating a national strategy for private sector participation in infrastructure.

3.2.7 The floating tranche relating to *Information and Communication Technologies (ICT)* **was not disbursed**; this was because of the non-fulfilment of the condition concerning "the award of the second GSM license through a competitive and transparent competitive bidding process and the publication, by Tunisia Telecom, of a standard interconnection bid approved by INT". The cofinanciers jointly deemed the two sub-components of the condition unfulfilled: on the one hand, the transparency of the process for the award of the GSM license was called into question by the cofinanciers and, on the other hand, the interconnection catalogue was never

published, which was also contrary to the law. However, the principal objective of opening up the sector to private competition was effective and successful, since Tunisiana opened its services to the public in late 2002.

3.3 Matrix of Measures

3.3.1 The programme comprised 51 measures in all, including 28 disbursement conditions divided into four sub-components: (i) the macro-economic framework (5 measures, including 1 condition); (ii) private sector competitiveness (16 measures, including 10 conditions); (iii) consolidation of the Insurance and Financial Sectors (10 measures on the financial sector, including 2 conditions, and 10 measures on the insurance sector including 9 conditions); and (iv) ICT sector reforms (11 measures including 7 conditions). Despite the complexity of the measures, most of them were fulfilled, and only four (4) disbursement conditions were not fulfilled.

3.3.2 The matrix of measures was designed in an extremely organized manner, with a gradual approach to the reforms in stages. Although the pace of the reforms was relatively slow, this prudent approach led to reform ownership by most of the authorities and good quality political dialogue with the donors. Furthermore, as illustrated by the scope of the areas covered by the matrix of measures, the programme was to some extent affected by this diffuseness: some of the measures were extremely technical (such as the accounting consolidation of the groups of companies, or the establishment of an electronic exchange platform by TTN), whilst others were extremely global and political (such as the study leading to a plan of action for investment promotion). Similarly, some measures dwelt on the form of the reform without being specific on the substance. Such was the case of the establishment of the National Tax Council or an independent ICT regulator, whose prerogatives remained vague. Overall, the matrix of measures was relevant and showed actual results in terms of reforms, but the effectiveness of the impacts of the reforms will be borne out in the medium to long term. It is now clear, for example, that the impacts of the measures on the restructuring of the banking sector or the autonomy of some institutions were limited, but could be commended for having led to the initiation of the necessary reforms in these sectors.

3.4 Monitoring, Implementation and Reporting

Programme implementation and coordination fell within the purview of the Directorate-General of Forecasts (DGP), acting as the executing agency and located within the Ministry of Development and International Cooperation (MDCI). The DGP was endowed with skilled personnel and had proven experience in the management of the Bank's projects. It played an active role in programme design and implementation and effectively coordinated all the structures responsible for the different aspects of the reforms. The necessary documents for monitoring programme implementation were provided by the authorities. Smooth coordination and constant exchange of information between the co-financiers contributed to the good performance of the programme.

3.5 Procurement of Goods and Services

The procedures for the procurement of goods and services were complied with, in keeping with the provisions of the Loan Agreement and the Bank's procedures: (i) international competitive bidding for public contracts, supply of goods and services equal to, or higher than, UA 4 million. However, an exception was made for petroleum and food products in respect of which specific international trade practices exist; (ii) the procedures normally used by the borrower for procurements made by public bodies of an estimated amount of less than UA 4 million. Most of the goods funded with loan resources related to public entities. The rare procurements regarding private enterprises, all in an amount less than UA 4 million, were made in conformity with the provisions of the Loan Agreement.

3.6 Sources of Finance, and Release of Tranches

3.6.1 According to the appraisal report, the financing of PAC II was to be provided by the ADB (Euro 216 million), the World Bank (Euro 281 million) and the European Union (Euro 80 million). It should be noted that the loan amount awarded by the Bank (and by the World Bank) was increased to UA 150 million, in relation to the initial amount of UA 100 million to take due account of the accelerated pace of reforms and deterioration of external conditions, following the events of 11 September 2001.

3.6.2 The three cofinanciers disbursed the totality of the first tranche. The Bank disbursed its first tranche of Euro 108 million on 28 December 2001 when the loan became effective. The second tranche was divided into three floating tranches of equal amounts, for each donor, linked to the reforms relating to the three specific areas (i) private sector environment; (ii) strengthening of the Financial and Insurance sector; and (iii) Information and Communication Technologies (ICT). The three cofinanciers disbursed the two floating tranches relating to the first areas, but the floating tranche relating to the ICT area was not disbursed by any of the cofinanciers. For its part, the Bank disbursed the two floating tranches on 21 January 2004 (for the financial sector) and 10 August 2004 (for the private sector environment).

IV. PROGRAMME PERFORMANCE AND RESULTS

4.1 Institutional Performance

4.1.1 The private sector's contribution to economic growth and competitiveness required considerable institutional and regulatory reforms which contributed to building the capacity of the structures created under PAC II. Indeed, in the ICT sector, besides the regulatory framework that was reorganized, regulatory agencies and structures were created, namely, the National Telecommunications Agency (INT), the National Frequency Agency (NFA), the National Tax Council (CNF), and the General Insurance Committee (CGA). In the business environment, the establishment of an interface between Tunisia Trade Net and the Customs Information System (CIS) improved performance through a considerable reduction in administrative authorizations. Similarly, the Competition Board was consolidated as a jurisdictional, jurisprudential and doctrinal body. PAC II also placed emphasis on the need to provide the newly created agencies, especially the CGA and the INT, with the necessary material and human resources in order to

fulfil their roles. Emphasis was also laid on the need to grant the agencies the autonomy indispensable for their smooth operation and on training. This made them credible and maximized the Programme's impact as far as institutional development is concerned.

4.1.2 The financial sector reform also contributed to improving institutional stability thanks to the strengthening of the BCT, the merging of some Banks, the privatization of others, and their modernization. Furthermore, the amendment of the Code of Civil and Commercial Procedures facilitated the recovery of NPLs, improved the security of banks, and consolidated the situation of the banking system thanks to the institution of new prudential and accounting standards. In the Insurance sector, the programme led to the restructuring of distressed companies, especially through the withdrawal of the approval of the company El Ittihad, the transfer of its portfolio to a new mutual insurance company association, the partial achievement of the GAT and Lloyd recovery programme, as well as the adoption of the principle of privatization of STAR (which accounted for 30 % of the market in 2003). Concurrently, the regulatory framework was reformed and a control authority (CGA) set up and new financial transparency rules established. More generally, PAC II led to the gradual disengagement of the State's role in the economy to the benefit of market regulation. Sector measures thus targeted changes in regulations and regulatory codes. This was mainly the case of the ICT sectors, which gradually opened up the monopoly.

4.2 Economic and Sector Performance

A. Macro-Economic Framework Stability

4.2.1 At macro-economic level, despite the considerable exogenous shocks, such as the events of 11 September 2001, the decline in tourist revenue, the reduction in agricultural production due to drought, the contraction of European demand, or the surge in oil prices, the performance of the Tunisian economy during the programme period was satisfactory. Thus, although there was a slow-down in growth in 2002, with 1.7 % of the GDP, the trend was reversed in 2003 with a 5.6 % growth rate, and 6 % in 2004. Considering the context, inflation was well contained at a rate of 2.8 % in 2002 and 2003, and 3.6 % in 2004. Similarly, as a result of prudent budgetary policies, the budget deficit net of grants and privatization revenue was controlled at 3.5 % of GDP in 2002 and 2003, and reduced to 2.9 % of GDP in 2004. This trend led to the introduction of greater flexibility into exchange rate management in 2002, through a depreciation of the real exchange rate, which contributed to maintaining competitiveness, especially faced with the process of the Association Agreement with the EU. There was, therefore, a steady narrowing of the current account deficit during the period, from 4.3 % of GDP in 2001 to 2 % in 2004.

4.2.2 Furthermore, as regards *public debt and taxation*, which constituted the key measures of this component, although the public debt outstanding fell from 62.8 % in 2001 to 59.7 % in 2004, it remained at a high level. Nonetheless, the programme led to an improvement in its management and monitoring, especially through the establishment of a computerized integrated database on public and private external debt. Similarly, a public debt management strategy leading to a more pro-active approach was prepared with the assistance of the World Bank. Concurrently, the National Tax Council was established, which made it possible to strengthen the tax base and fiscal viability in the medium and long term.

B. Private Sector Competitiveness: Business Environment and Privatization

4.2.3 Regarding the *business environment*, the survey conducted by IEQ on the business environment showed a positive appreciation of the companies: 85 % of the companies questioned considered the administrative constraints low or moderate in 2005, compared to 65 % in 2002; and 40 % considered customs constraints low or moderate in 2005, compared to 20 % in 2002. This assessment was also confirmed by the World Bank's "Doing Business": the number of days required for starting a business fell from 40 to 14 between 2003 and 2005, and the number of corresponding procedures, from 10 to 9.

4.2.4 The study on private sector promotion and its plan of action were carried out² with an analysis of the tax incentive policy as well as proposals for improvement, especially regarding relations between the tax authorities and companies. At fiscal level, the Code of Fiscal Rights and Procedures and its implementing texts were adopted while, regarding foreign trade facilitation, the deadline for full VAT credit refund to exporters was reduced to less than 30 days, and the customs clearance procedures were simplified and reduced from 2-3 days to 15 minutes through the computerized link between Tunisia Trade Net and Customs SINDA. Concerning the procedures for the creation of companies, 54 % of some 500 administrative authorizations were abolished³. As regards the strengthening of Competition, the relevant Plan of Action was adopted and applied through the 2003 Competition Law, in the form of a possibility of recourse to the Appeal Chamber of the Administrative Court regarding the decisions of the Competition Board, and consolidation of the Competition Board as a jurisdictional, jurisprudential and doctrinal organ relating to competition law. Competition was also strengthened through privatizations. The bidding procedures for the transfer of the totality of UIB and Banque du Sud capital were launched in 2002, and the UIB was subsequently transferred to the French Bank, Société Générale. On the other hand, the Banque du Sud was privatized after the programme was implemented, and became Bank Attijari (Wafa).

C. Financial and Insurance Sectors

4.2.5 In the *Banking sector*, the measures for strengthening the Central Bank led to the establishment of 9 financial data banks comprising databases on balance sheets, risks, classified assets, recovery, transfers to recovery companies, assets eligible for refinancing, unpaid cheques, and individuals' credit history. These databases contributed to improving the availability, reliability and transparency of financial information on borrowers. The use of these information files is still limited, however, owing to the narrowness of the database. The introduction of tax incentive measures on provisioning and the write off of NPL led to an improvement in the coverage rate of classified claims by provisions and interest in suspense of the deposit banks (45.2 % by the end of 2004). Nonetheless, the measures relating to the easing of the conditions for the cancellation of NPLs and debt recovery did not yield the expected results. Generally, a suitable institutional arrangement to strengthen the prudential rules should be sought, considering the fact that collection agencies belong to banks and that debt collection is closely linked to the

² *Private investment promotion and role of incentive policy: analysis and recommendations*, FIAS, World Bank, 2002.

³ PAC-III is pursuing this measure by reducing the number of administrative authorizations from 260 to 120.

real rise in value of real estate collateral. The measures relating to the regulations on accounts certification and on the compulsory listing or rating of any company with commitments exceeding specific limits, as well as a new major risk concentration ratio, contributed to enhanced risk management in the banking sector. On the other hand, the measure regarding the adoption by STB and BNA of the management method in the form of a Board of Directors and Oversight Board was cancelled after its adoption, which required taking into account the governance modalities of the public banks most suited to the context. Overall, the programme impacts on the NPLs remained limited since the NPLs' share in all bank commitments in 2004 was 23.6 %, as against 20.9 % in 2002.

4.2.6 Regarding *the financial market*, the two studies on the development of the capital market and organization of the information systems of the Financial Market Council (CMF) were conducted and a plan for the application of the conclusions of the studies gradually prepared. In fact, 6 of the 22 measures under the plan were not adopted during the programme's implementation since they were considered premature or inapplicable in the Tunisian context. Some measures adopted, such as the integration of the different information systems of the CMF, led to strengthening the effectiveness of the supervision of the Tunisian financial market. Generally, there was a +52 % increase over the period of the amount of capital raised by the Tunisian companies through primary market offerings.

4.2.7 Concerning *the insurance sector*, although all the measures envisaged were implemented, their impact in terms of the financial restructuring of the sector remained mixed, considering the magnitude of the cumulated deficits of the insurance companies. The financial situation of the insurance sector remained difficult, with the consolidated results of the companies in 2003 posting a TND 48.24 million deficit, including TD 91 million imputable to the automobile line which accounted for 43 % of the market. Thus, the efforts to restructure and modernize the insurance sector needed to be pursued. Nonetheless, the adoption of a regulatory and prudential framework should lead to a long-term sector improvement. The Insurance Code amendment law was adopted in 2002, and the Directorate-General for Insurance was restructured and transformed into a General Insurance Committee (CGA) whose function was to control the sector. The recruitment of its staff was carried out and the CGA rapidly became operational, carrying out on-site inspections. Control manuals were prepared with the support of the Bank, and with Japanese funding. Nonetheless, needs in terms of material investments, premises, training and remuneration were yet to be met. Measures to reduce the sector deficit by increasing third party insurance premia, introducing a new compensation scheme and restructuring the most vulnerable insurance companies, namely, El Itihad, GAT and Lloyd, were initiated while the privatization of STAR has been adopted in principle⁴. As regards the promotion of bank assurance and channelling of long-term savings, the impact on the volumes of premia of the tax exemption measure of collective life insurance premia introduced in the 2002 Budget Act, remained limited.

⁴ Opening up of the STAR capital to a strategic partner (35%) was launched in 2007, but has not yet been concluded.

D. Reform of the Information and Communication Technologies sector

4.2.8 At the institutional and legislative levels, PAC II led to the formulation of a medium and long-term ICT strategy for a new regulatory framework that complied more closely with international standards, and the creation of regulatory agencies. A regulatory agency, the National Telecommunication Institute (INT) as well as the National Frequency Agency were created. Nonetheless, the role and prerogatives of the INT remained limited and the MTC still maintained a preponderant role especially in the grant of licenses, tariff regulation and technical standards. The Trade and E-commerce law, including personal data protection, was adopted. Similarly, implementing decrees and orders for the new Telecommunications Code were adopted. More particularly, the decrees on interconnection and easements clarified the rights and obligations of all parties, but their enforcement had a limited impact. In particular, the Telecommunications Code continued to leave the sector essentially under State control. The authorities further adopted and published a medium-term liberalization plan (2002-2006) of the information technologies sector. Two VSAT licenses were granted to Tunisia Telecom, the other to Divonna, with 60 % with Tunisian capital (Planet) and 40 % to Monaco Telecom. Regarding Tunisia Telecom, the control systems were reinforced through the institution of cost accounting.

4.2.9 Although the floating tranche relating to the ICT was not disbursed, the programme largely contributed to the reform of the sector and its impact, especially in terms of opening up to competition, was considerable. Although the condition relating to “the award of a second GSM license through a competitive and transparent bidding process” was not considered as having been fulfilled by the co-financiers, its objective was attained: the second operator Tunisiana opened up its services to the public in late 2002 and made significant progress. The telecommunications sector was thus open up to the private sector (award of a GSM license, announcement of the sale of a minority share of the capital of Tunisia Telecom⁵ and improvement of its accounting system). The opening up to GSM competition, with two operators, revitalized the mobile telephone market. Moreover, the introduction of competition did not “kill” the legacy operator, Tunisia Telecom, but rather obliged it to reform and turn towards a new segment of clientele since, in 3 years, the number of GSM subscribers of Tunisia Telecom increased from under 200 000 to over 3.5 million. The impact of the opening up to competition on GSM was also extremely high on the tariff trend. Within 4 years, the cost of a SIM card fell from TND 150 to TND 10. The programme thus contributed to accelerated growth of ICT services in a competitive environment, a higher contribution to GDP, and improved competitiveness of Tunisian companies on the global market.

V. **PROGRAMME IMPACT**

5.1 **Economic Impact**

5.1.1 The macro-economic framework remained stable during the implementation of PAC-II, except in 2002, the year in which exogenous shocks (September 2001 events) had impacts on the macro-economic results. Overall, the results were in keeping with the fixed objectives. The

⁵ Partial opening up of Tunisia Telecom’s capital (35 %) was made in 2006.

macro-economic policies remained prudent during and after programme implementation, and continued to aid economic growth. Inflation remained under control, as well as the budget deficit and the public debt overhang. The first tranche of the programme from the three co-financiers helped stabilize the central government budget at that moment of crisis, and growth regained the expected levels as from 2003.

5.1.2 The programme also improved competitiveness as well as the business environment. Reforms on administrative barriers to investment with the abolition of 60 % of some 500 administrative authorizations and the improvement of the legislative and regulatory fiscal and customs framework and keener competition led to a reduction in company transaction costs and revitalization of the economy. The ICT sector reform helped strengthen the competitiveness of the sector considered strategic. Furthermore, the financial and insurance sectors increased credit to the economy which, in relation to GDP, rose from 57.8 % in 1992 to 65.33 % in 2002 (falling, however, in relation to 1999 when it had risen to 68.5 %).

5.2 Social Impact

5.2.1 Through its contribution to the economic performance of the country, the programme aided social improvement. Between 2001 and 2005, there was a further reduction in vulnerability and poverty under the effect of high and sustained growth, despite poor agricultural years. GDP per capita in 2005 was US\$ 2,713 (TND 3,503) compared to US\$ 1,510 (TND 1,950) in 2001. Nonetheless, despite sustained growth, unemployment remained at extremely high levels (about 15 % in 2001 and 13.9 % in 2004).

5.2.2 Furthermore, the PAC II's direct positive impacts concerned insurance. In particular, it contributed towards an increase in the life insurance penetration rate, better risk coverage and a significant reduction in compensation time. Competition among insurance companies was no longer conducted only on the basis of prices, but on that of service quality. Policy-holders were better protected and benefited from improved services. Furthermore, the liberalization measures of the ICT sector led to cost reductions with the market entry of the new telecommunications operator contributing to its popularization.

5.3 Environmental Impact

Through its measures, PAC II had no environmental impact.

5.4 Impact on Governance

5.4.1 The programme contributed to improving governance of the macro-economic framework and public finance through improved public debt and fiscal management. It also led to an improvement in relations between government services and the private sector through measures aimed at administrative simplification for the business environment, such as the simplification of tax and customs procedures and VAT management or even the abolition of part of the administrative authorizations.

5.4.2 Furthermore, the corporate governance sub-component targeted the strengthening of financial transparency through the Companies Act as well as the introduction of new accounting standards. It also improved competition through measures concerning the legal and institutional framework, but also through a series of privatizations embarked upon under the programme. The merger of UIB and BTEI, followed by the privatization of the new bank, as well as the measures concerning the reorganization of the banking sector also enhanced business transparency and bank governance. Similarly, the programme helped revive the insurance sector through the establishment of management rules.

5.4.3 Lastly, the liberalization measures and those concerning the improvement of the legislative and institutional framework of the Information and Communications Technologies sector (ICT), raised investor confidence in the sector as a result of more transparent rules and heightened market visibility.

5.5 Programme Risk Assessment

The appraisal report raised two principal risks likely to have an adverse effect on programme implementation: (i) possible weakening of the Authorities' political will to pursue and deepen the reforms, and (ii) absence of a favourable international outlook which prevented the fulfilment of the programme's macro-economic forecasts. The Tunisian Government demonstrated its determination to pursue the reforms through the implementation of most of the programme measures. Furthermore, despite an unfavourable international environment marked by the effects of the 11 September 2001 events and economic slowdown in Europe, Tunisia was able, thanks to healthy and prudent policies, to overcome the external shocks and achieve satisfactory economic performances. Finally, the risks identified had no significant impact on the conduct and results of the programme.

VI. SUSTAINABILITY OF PROGRAMME IMPACTS

6.1 The main factor of the sustainability of the impacts of PAC II is the authorities' political commitment to pursue and deepen the reforms. Furthermore, the approach adopted by the Government in the conduct of the reforms with the involvement of all it services directly or indirectly concerned by the reforms, as well as the professional organizations of the private and public sectors, contributed to strengthening the degree of ownership of the reform formulation, implementation and monitoring process. That was also an important factor of the sustainability of the programme impacts. Besides the financial sector (banks and insurance) and business environment improvements, the establishment of new regulatory agencies, with managerial autonomy and the necessary human and material resources, contributed to gearing the economy towards a market-oriented regulation. In a context of gradual opening up of the economy to globalization, the Government undertook to pursue the economic adjustment.

6.2 Regarding the ICT sector, the programme led to the initiation of a new, more competitive framework and a new dynamic to accelerate the growth of this sector considered strategic for the country's development. With the establishment of a plan of action to reduce internet access costs, the award of data transfer licences and new UMTS fixed line licences in 2005 confirmed the authorities' commitment to pursue the liberalization of the sector, improve telephony services coverage, and ensure new jobs and lower communication costs for the population.

VII. PERFORMANCE OF THE BANK, BORROWER, AND COFINANCIERS

7.1 Performance of the Bank

PAC II was in keeping with the Bank's strategy for the period 2002-2004 which was aimed at supporting the Government Programme set out in its 9th and 10th Development Plans. The programme was appraised and the loan set up jointly with the World Bank and the EU satisfactorily and within an acceptable timeframe. There was constant exchange of information between the cofinanciers who organized joint missions. The Bank's supervision was satisfactory in spite of difficulties due to the security situation in Côte d'Ivoire during the programme period and temporary relocation of the Bank to Tunisia. These difficulties were partly offset by smooth collaboration with the other co-financiers. Indeed, the quality of the competitiveness support programmes was due to the close coordination between the co-financiers. Consequently, together with the co-financiers, the Bank adjusted the disbursement mechanism to the new context created by 11 September 2001 (§ 2.4.2); the Bank granted a waiver in coordination with the World Bank (§ 3.2.6), which prevented any interruption to the programme's implementation. Nonetheless, this close coordination could also have negative repercussions for the Government, as illustrated by the fact that the ICT floating tranche concerning the second GSM licence was not released (§ 3.2.7). The close collaboration between the three institutions did, however, prevent divergent positions on strategic issues. Finally, in terms of disbursement, the last two disbursements of the Bank were the most delayed, as shown in Table 1. The delay in the disbursement of the "business environment" floating tranche may be partly attributed to the procedures leading to the granting of the waiver. The performance of the Bank was therefore satisfactory on the whole (rating 3.25).

7.2 Performance of the Borrower

The Government played an active role in programme preparation on the basis of the strategy and objectives of the 10th Plan and by identifying the critical areas in which reforms were required. It collaborated with the donors in defining appropriate measures and implementing them. More particularly, the Ministry of Development and International Cooperation (MDCI), with the DGP as the programme executing agency, played an active coordinating role in programme design and implementation. It provided the necessary documentation for monitoring programme implementation, and served as an effective interlocutor for the cofinanciers. The DGP actually had the necessary and sufficient skills, especially in human resources, and ensured effective coordination among the Government entities involved in the Programme. The different government services played their role in programme implementation. Overall, the performance of the Borrower was satisfactory. (rating 3).

7.3 Performance of the Cofinanciers

The close coordination between the cofinanciers was exemplary right from programme formulation, as illustrated by the speed of the cofinanciers' adjustment to the 11 September events, by transforming the second tranche into three floating sub-tranches. Most of the missions were fielded on a joint basis and, despite the disturbances caused by the temporary relocation of

the Bank, exchange of information and documents made it possible to ensure effective coordination, establish a common evaluation of the progress made, and maintain consistency in the dialogue with the authorities. Thus, the ICT floating sub-tranche of the second tranche was not disbursed by any of the three co-financiers. Similarly, the waiver was granted by the Bank and the World Bank to the floating tranche relating to the business environment, while the European Union deemed the conditions “partially fulfilled”. Nonetheless, although the analysis relating to the fulfilment of conditions and political dialogue was the subject of consultation between the co-financiers, the organization of disbursements was not coordinated, as shown in the table below. Overall, the World Bank was the most efficient in terms of disbursement mechanism, whilst there was a certain sluggishness in the ADB and European Union’s disbursement procedures and mechanisms.

Table 1
Disbursement Dates by Donor

	World Bank	EC	ADB
Signature of Loan Agreement	December 2001	May 2002	November 2001
Disbursement of 1 st tranche	December 2001	June 2002	December 2001
Disbursement of the “Financial Sector Strengthening” Floating Tranche	September 2003	November 2003	January 2004
Disbursement of the “Business Environment” Floating Tranche	December 2003	August 2004	August 2004

VIII. OVERALL ASSESSMENT OF PROGRAMME

8.1 Overall, PAC II attained the expected results, and programme performance was satisfactory with a rating of 3.25. It supported the implementation of important reforms in Tunisia and contributed to considerable progress in the sectors covered by the Programme. At macro-economic level, the programme contributed to ensuring stability, initiating improved external debt management, and preparing a plan for broadening the tax base, aimed at making government finance more flexible and viable in the long term. It improved the business environment by making the economy less administered, through the lifting of administrative barriers to investment, the recasting of the Competition Law and strengthening of the regulator, as well as through State disengagement (privatization of banks and divestment of shareholdings in public enterprises). In the ICT sector, PAC II led to an increase in the supply of services with private participation and the opening up of the market, which in turn contributed to improving the private investment environment. In the financing sector (banks, insurance, capital markets), the programme improved the efficiency of financial intermediation services through the reorganization and modernization of the insurance sector, and improved the distribution of roles between the banks and financial markets, while modernizing the management of doubtful bank loans and improving the governance of public banks.

8.2 From the economic standpoint, despite the particularly difficult international environment as a result of the 11 September 2001 events, the performance of the Tunisian economy for the period 2002-2004 was satisfactory with: (i) a favourable trend in the growth rate (about 6 % except in 2002 when it was 1.7 %); (ii) a controlled budget deficit, net of grants and

privatization revenue of about 3 % of GDP; (iii) inflation contained at about 3 %; (iv) a current account deficit which narrowed steadily from 3.5 % of GDP in 2002 to 2 % in 2004. Nevertheless, despite the establishment of prudent and rigorous economic policies, the reforms are yet to be pursued to address the following aspects: (i) a certain vulnerability to external shocks and climatic conditions; (ii) fluctuations in internal balances; (iii) dependence on the European Union market which is the source of about 80 % of the country's export earnings; and (iv) State predominance in the productive and service sectors.

IX. CONCLUSIONS, LESSONS AND RECOMMENDATIONS

9.1 Conclusions

The Bank and the other co-financiers supported the Tunisian Government in the implementation of the PAC II reforms. The Government implemented a large number of measures, which led to a stable macro-economic framework capable of resisting exogenous shocks, and a more competitive, and consequently more efficient economic environment, which led to an improvement in the competitiveness of the Tunisian economy. This performance was mainly due to the political will and strong determination of the Government to implement the reforms. It was also due to the smooth coordination between the co-financiers and with the Tunisian authorities. The close involvement of the Tunisian authorities right from the programme design phase led to a high degree of ownership and ensured the success of its implementation. The programme therefore facilitated the opening up of the economy in a climate of globalization. These reforms should therefore be pursued and deepened so as to consolidate the competitiveness of the Tunisian economy.

9.2 Lessons Learnt

The following lessons can be drawn from the experience in the implementation of PAC II:

- the success of a programme depends on its smooth preparation on the basis of the economic and sector work carried out, with the careful targeting of reforms and coordinated policy and macro-economic and structural reform implementation;
- loan conditions that are examined thoroughly and consensually with the authorities, and clearly formulated with precise verification criteria facilitate their fulfilment and speed up loan effectiveness and programme implementation;
- the disbursement procedures of the Bank (including the waiver) were slow in relation to the other co-financiers; and
- an administration endowed with stable and competent teams, highly committed to both the design and implementation of the reforms, as well as ownership of the reform programme by the Borrower, constitutes a major asset for reform implementation and programme success.

9.3 Recommendations

For the Bank:

- (i) as regards the waiver and the disbursement conditions: (a) privatizations in the strategic sectors should be subject to prudence and in-depth dialogue before they are considered as disbursement conditions (SNDP); (b) conditions likely to be influenced by Parliamentary adoption processes (case of implementing texts for the Companies Act which were not adopted by Parliament) must be avoided; (c) the objectives to be attained must be targeted rather than the processes, whenever a strategically sensitive political and economic choice needs to be made (such as the granting of GSM licences) (§ 3.2.6 - §3.2.7) (§ 3.2.6 - §3.2.7);
- (ii) cooperation must be pursued between the co-financiers with a view to an effective coordination of programme activities, especially by joint missions and concurrent examination of documents on the implementation of the measures, which constitute the guarantee of the success of reforms of such magnitude (§ 2.4 - §3.4);
- (iii) policy dialogue must be pursued and deepened with the Tunisian authorities with a view to consolidating the reforms undertaken under PAC I et II (§6.1 - § 6.2, § 8.2); and
- (iv) the Bank's responsiveness must be improved, especially in terms of disbursement procedures and mechanisms (§ 7.1 - § 7.3).

For the Government:

- (i) the feasibility of the disbursement conditions domestically and in terms of timetable should be thoroughly examined (§ 3.2.6 - §3.2.7);
- (ii) the consolidation and acceleration of reforms already undertaken, as well as those not fully implemented, must be pursued and consolidated with a view to strengthening competitiveness in the context of the gradual opening up of the economy in the face of globalization (§6.1 - § 6.2, § 8.2).

TUNISIA
COMPETITIVENESS SUPPORT PROGRAMME II (PAC II)

PERFORMANCE OF THE BORROWER

<u>Component indicator</u>	<u>Ratings (1 to 4)</u>	<u>Comments</u>
1- Adherence to Time Schedule	3	Almost all the programme measures were implemented on schedule, with the exception of three, which were the subject of a waiver granted by the Bank to the Borrower. That delayed the disbursement of the two floating tranches. The delay was not fully controlled by the authorities.
2- Adherence to Cost Schedule	Not applicable	
3- Compliance with Conditions/Covenants	3	Overall the conditions/covenants were complied with. The measures included in the programme were carried out by the Borrower except the one relating to the award of a GSM licence; even the measures in respect of which a waiver was given were at an advanced stage of implementation and fulfilled in substance.
4- Adequacy of Monitoring, Evaluation and Reporting	3	Monitoring and evaluation conformed to the contractual provisions. The necessary documentation for monitoring programme implementation was provided.
5- Satisfactory Operations	Not applicable	
TOTAL	9	
Average for this table	3	
Overall Assessment of Implementation Performance	S (Satisfactory)	

- 1 : Highly unsatisfactory (EU)
- 2 : Unsatisfactory (U)
- 3 : Satisfactory (S)
- 4 : Highly satisfactory (HS)

TUNISIA
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PERFORMANCE OF THE BANK

<u>Component Indicator</u>	<u>Rating (1 to 4)</u>	<u>Comments</u>
1- At Identification	3	PAC II was identified during joint PAC I supervision missions between the Bank, the World Bank and the EU. The programme was part of the national priorities and conformed to the Bank's 2002-2004 Country Strategy Paper.
2- At Preparation	3	The three institutions undertook a joint preparation mission.
3- At Appraisal	3.5	The appraisal was jointly carried out with the World Bank and benefited from exchanges of information with the other co-financiers. The design of the programme and targeting of measures were sound.
4- At Supervision	3.5	The Bank fielded 2 supervision missions despite the disruption due to its relocation to Tunis, travel problems due to the events of 11 September 2001 and the trouble in Côte d'Ivoire. The first supervision mission was fielded 4 months after the signature of the loan Agreement.
TOTAL	13.0	
Average for this table	3.25	
Overall Assessment of Bank Performance	S	

- 1 : Highly unsatisfactory (EU)
 2 : Unsatisfactory (U)
 3 : Satisfactory (S)
 4 : Highly satisfactory (HS)

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COMPETITIVENESS SUPPORT PROGRAMME II (PAC II)

PROGRAMME RESULTS

<u>N</u>	<u>Component Indicators</u>	<u>Rating (1 to 4)</u>	<u>Comments</u>
1.	Relevance and Achievement of Objectives		The relevance of the objectives was proven. The project attained all the principal objectives.
i)	Macro-economic Policy	3	Despite a difficult international environment, which complicated macro-economic management, programme implementation was satisfactory and led to the maintenance of sound and healthy macro-economic framework.
ii)	Sector Policy	3.5	Government policy in the financial sector, ICT and in the private sector was marked by the will to improve the situation, strengthen the legal and regulatory framework, and establish a framework that will foster an improved business climate, strengthening of the legal framework and monitoring and supervision and increased regulation by the market mechanisms.
iii)	Physical (including production)	N.A.	
iv)	Financial	NA	
v)	Poverty Reduction, Social Impact and Gender	3	Improvement of services in the insurance sector and particularly improved protection of the insured through the guarantee fund in case of insolvency of insurers. Protection of public savings invested in OPCVM through prudential rules and enhanced information to investors. .
vi)	Environment	NA	
vii)	Private Sector Development	3.5	Improvement of the business environment, transparency of information, thereby promoting private sector financing. The reorganization of the insurance sector will increase protection of private ownership, as well as mobilization of long-term resources and ensure more effective capital allocation.
	TOTAL	13	
	Average for this table	3.25	
	Overall Assessment of the Relevance and Achievement of Objectives	S+	

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PROGRAMME RESULTS

N	<u>Component Indicators</u>	<u>Rating</u> (1 to 4)	<u>Comments</u>
2	Institutional Development		
i)	Institutional Framework	3.5	The creation of supervision agencies, providing them with the necessary resources and granting them adequate autonomy contributed to strengthening the legal and regulatory framework
ii)	Financial and Management Information Systems, including Audit Systems	NA	
iii)	Transfer of Technology	3	
iv)	Staffing by qualified persons (including turnover) training and counterpart staff	NA	.
	TOTAL	6.5	
	Average for this table	3.25	
	Assessment of Institutional Development	S+	
3	Sustainability		
i)	Continued Borrower Commitment	3.5	The Government demonstrated strong commitment and was active in the preparation of the Programme. It owned the reforms while displaying firm determination to see them through.
ii)	Environmental Policy	N.A.	
iii)	Institutional Framework	3.5	The institutional framework was strengthened in order to implement in-depth reforms aimed at making long-term changes.
iv)	Technical Viability and Supervision	N.A.	
v)	Financial Viability, including cost recovery systems	N.A.	
vi)	Economic Viability	N.A.	
vii)	Environmental Viability	N.A.	
viii)	Operation and Maintenance Facilitation (availability of recurrent funding, foreign exchange, spare parts, workshop facilities, etc.)	N.A.	
4	Internal Rate of Return	N.A.	
	TOTAL	7.0	
	Average for this table	3.5	
	General average	3.25	
	Overall Assessment of Results	S	

- 1 : Highly unsatisfactory (EU)
2 : Unsatisfactory (U)
3 : Satisfactory (S)
4 : Highly satisfactory (HS)

TUNISIA
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(X denotes disbursement conditions or “star” conditions for the floating tranches)

OBJECTIVES	1 st TRANCHE MEASURES	2 nd TRANCHE MEASURES Tranche relating to Environment Private investment	2 nd TRANCHE MEASURES Tranche relating to the Financial Sector	2 nd TRANCHE MEASURES Tranche relating to Information and Communications Technology (ICT)	STATUS END OF PROGRAMME
MACRO-ECONOMIC FRAMEWORK STABILITY					
<i>Maintain a stable macro-economic framework</i>	1. 1. Achievement of the performance indicators set out in Table 1 attached.	1.2. Achievement of the performance indicators set out in Table 1. (X)			Completed. Stable macro-economic framework maintained. Acceptable deviations from initial objectives for exogenous reasons. The solid macro-economic framework will permit convergence towards the initial objectives.
<i>Strengthen debt management</i>	2. 1. Operationalization of the computerized and unified information database on public and private external debt.	2.2. Adoption of an Action Plan for active public debt management.			Completed. Establishment of a computerized and unified information database on public and private external debt; A document entitled “Public Debt Management Strategy” was prepared with World Bank support.
<i>Strengthen the tax base and viability in the medium and long term</i>	3. 1. Promulgation of the Decree on the establishment of the National Tax Council.				Completed. The CNF was established.

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OBJECTIVES	1 st TRANCHE MEASURES	2 nd TRANCHE MEASURES Tranche relating to Environment Private investment	2 nd TRANCHE MEASURES Tranche relating to the Financial Sector	2 nd TRANCHE MEASURES Tranche relating to Information and Communications Technology (ICT)	STATUS END OF PROGRAMME
PRIVATE SECTOR COMPETITIVENESS: Business Environment and Privatization					
<i>Increase the participation of private investment</i>	4.1. Agreement on the terms of reference for the study on private investment promotion.	4.2. Finalization of the study and adoption by the Government of a Plan of Action for private investment promotion on the basis of the findings of the study. (X)			Completed. The study on private sector promotion and its Plan of Action were carried out with an analysis of the fiscal incentive policy and proposals for improvement, especially concerning relations between the tax authority and companies.
<i>Improvement of relations between tax authorities and private companies</i>	5.1. Submission of the Code of Fiscal Rights and Procedures to the Chamber of Deputies.	5.2. Adoption of the implementing texts provided for by the Code of Fiscal Rights and Procedures. (X)			Completed. The Code of Fiscal Rights and Procedures and its implementing texts were.
<i>Simplification of procedures for the establishment and operation of private companies and speeding up of the customs clearance process.</i>	6.1. Reduction, to a maximum of thirty days after request, of the deadline for VAT credit refund to exporters.	6.2. Establishment of the interface between "Tunisia Trade Net" and "Customs CIS".			Completed. - The deadline for full VAT credit refund to exporters was reduced to less than 30 days. - The interface was established in April 2002.

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OBJECTIVES	1 st TRANCHE MEASURES	2 nd TRANCHE MEASURES Tranche relating to Environment Private investment	2 nd TRANCHE MEASURES Tranche relating to the Financial Sector	2 nd TRANCHE MEASURES Tranche relating to Information and Communications Technology (ICT)	STATUS END OF PROGRAMME
	7.1. Establishment of the system of sole interlocutor to authorize the creation of private companies.	7.2. 60 % reduction in the number of the administrative authorizations required in 2000 for the creation of private companies.			Completed. - A website was set up to facilitate the creation of companies. - 54 % of some 500 listed administrative authorizations were abolished to the benefit of an ex post control procedure.
<i>Improve the transparency and viability of information on companies.</i>	8.1. Tabling of the Bill on groups of companies to the Chamber of Deputies.	8.2. Government adoption of the implementing texts for the Companies Act. Publication of new accounting standards on consolidation and groups of companies. (X)			Waiver. The Bill was being considered in Parliament at the time the programme was completed.
<i>Strengthen institutional framework on competitiveness</i>	9.1. Government adoption of an Action Plan to <i>strengthen institutional framework on competitiveness</i>	9.2. Implementation of the Action Plan on Competition.			Completed. The 2003 Competition law was voted, and the Plan of Action implemented.
<i>Pursuit of the State policy of disengagement from the real and financial sectors.</i>		10.2. Launch of international competitive bidding for the divestment of all public shareholdings in UIB and Banque du Sud. (X)			Completed, for the UIB. Bidding was launched for the privatization of the Banque du Sud, but did not succeed. A second round of bidding was necessary for the completion of the procedure.

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OBJECTIVES	1 st TRANCHE MEASURES	2 nd TRANCHE MEASURES Tranche relating to Environment Private investment	2 nd TRANCHE MEASURES Tranche relating to the Financial Sector	2 nd TRANCHE MEASURES Tranche relating to Information and Communications Technology (ICT)	STATUS END OF PROGRAMME
		11.2. .Opening up of at least 25 % of a private company's capital to a strategic partner. (X)			Waiver. The offer was made in relation to the SNDP, but the identification of the partner was yet to be carried out.
		12.2. Establishment of a strategy for private sector participation in infrastructure.			Waiver. The Government opted for the conduct of a study and organization of a national workshop prior to the formulation and adoption of a national strategy.
		13.2. Conduct of a study on import monopolies. (X)			Completed. However, the donors deemed the study not sufficiently exhaustive thereby necessitating the deepening of the analysis and recommendations. The authorities confirmed their intention to carry out additional studies with a view to examining each monopoly separately and speeding up the liberalization process where feasible.

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OBJECTIVES	1 st TRANCHE MEASURES	2 nd TRANCHE MEASURES Tranche relating to Environment Private investment	2 nd TRANCHE MEASURES Tranche relating to the Financial Sector	2 nd TRANCHE MEASURES Tranche relating to Information and Communications Technology (ICT)	STATUS END OF PROGRAMME
FINANCIAL AND INSURANCE SECTOR					
<i>Consolidation of the Achievements of the Financial Sector</i>					
<i>Strengthening the governance of public banks.</i>	14.1. Adoption by STB and BNA, of the management mode in the form of a Board and Oversight Council.				Carried out, but cancelled soon after adoption. The measure is therefore considered not completed.
<i>Measures for the reorganization of the portfolio of credit establishments and strengthening supply procedures</i>	15.1. Submission to the Chamber of Deputies of a draft amendment to the Code of Civil and Commercial Procedures relating to debt collection.				Completed, but with limited impact.
	16.1. Extension, until 2006, of the possibility for credit establishments to make a 75 % tax deduction from their taxable profits for provisions constituted to cover classified claims.				Completed, but with limited impact.

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OBJECTIVES	1 st TRANCHE MEASURES	2 nd TRANCHE MEASURES Tranche relating to Environment Private investment	2 nd TRANCHE MEASURES Tranche relating to the Financial Sector	2 nd TRANCHE MEASURES Tranche relating to Information and Communications Technology (ICT)	STATUS END OF PROGRAMME
			17.2. In light of the initial results of the application of the amendments to the Code of Civil and Commercial procedures and the conclusions reached under the annual IMF Article IV consultation, (i) preparation by the authorities, of a study to evaluate the expected results of the new legislative environment referred to above;(ii) introduction, in the light of the study and where necessary, of new measures to further speed up bank credit recovery and realization of guarantees. (X)		Completed. The study was conducted by BCT. The impact of the reviews of the Code and the recommendations were yet to be carried out.
	18.1. Inclusion, in the Budget Bill, of an amendment to the Tax Code on companies softening the conditions for the cancellation of classified claims by reducing to two years the period during which the classified claim does not register any movement.				Completed, but with limited impact

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OBJECTIVES	1st TRANCHE MEASURES	2nd TRANCHE MEASURES Tranche relating to Environment Private investment	2nd TRANCHE MEASURES Tranche relating to the Financial Sector	2nd TRANCHE MEASURES Tranche relating to Information and Communications Technology (ICT)	STATUS END OF PROGRAMME
<i>Improvement of the transparency in information on Borrowers available to credit establishments.</i>			19.2. Commissioning of the Individual Credit File at the BCT, in conformity with its new statutes.		Completed. Some files were being developed by the end of the programme. The main file has been in place since September 2002, and the Banks began transmitting information in December 2002.
	20.1. Adoption, by the BCT of the regulation on the certification of accounts and compulsory listing or rating for any company with commitments exceeding the specified limits.				Completed. The measure contributed to reducing Banking sector risks.
Risk diversification	21.1. Adoption, by BCT, of the regulation establishing a new major risks concentration ratio.				Completed. The measure contributed to reducing risks in the Banking sector.
<i>Strengthening the role of the financial market</i>	22.1. Launch of studies (i) on the development of the capital market and (ii) on the organization and systems of information of the Financial Market Council (CMF).		22.2. Adoption of a Plan for the application of the conclusions adopted and approved on the basis of the two studies on the CMF.		Completed. The studies were conducted and handed to the CMF. However, the Action Plan had not been approved by the CMF.

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Reorganization of the Insurance Sector with a view to its Liberalization					
<i>Strengthening of the legislative framework and regulatory supervision</i>	23.1. Tabling before the Chamber of Deputies of a Bill on the amendment of the Insurance Code.				Completed. Law N°. 2002-37 was promulgated on 1 April 2002 and led to: (i) adjusting the prudential rules to international standards; (ii) beginning to consolidate the financial bases of insurance companies through a trebling of the minimum capital (TND 10 million for multi-line companies, TND 3 million for single-line companies and TND 1.5 million for mutual companies); and (iii) extending the scope of local control to companies specialized in reinsurance.
	24.1. Signing of the decree on the separation, within the Directorate-General for Insurance, of the supervising authority and the sector's control authority.				Completed. Decree 2001-2729 of 27 November 2001 separated the control function from the legislative function.

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	25.1. Agreement on a Plan of Action accompanied by a timetable for building the human and material capacity of the DGA to perform its control functions.		25.2. Actual establishment of the human and material resources necessary for performing the control functions of the DGA in keeping with the Plan of Action. (X)		Completed. The DGA was reorganized and replaced with CGA. Staff recruitment was made, but there was need for investment in equipment, premises, training and remuneration.
<i>Removal of the deficit of the motor 3rd party liability line</i>	26.1. Increase of at least 8 % in Third Party liability premia.		26.2. 3 % increase, in 2002, of 3rd Party liability premia. Preparation of a Plan of Action aimed at removing the deficit of the motor 3rd party line. (X)		Completed. Increase in motor 3 rd party insurance of + 8 % by late 2001 followed by + 3 % in 2004 and + 10 % in 2005.
			27.2 Submission to the Chamber of Deputies of draft amendments to laws 60-21 of 30/11/1960 and 62-23 of 30/08/1962 establishing a new compensation scheme (X).		Completed. The new law was promulgated on 15 August 2005: (i) establishment of a new system of compensation for bodily injuries caused by road accidents; and (ii) establishment of an appropriate mechanism exclusively for strengthening and financing actions to prevent road accidents.

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<i>Strengthening the Life Insurance line</i>			28.2 Modification of the fiscal and social handling of collective life assurance through the establishment of tax exemption on social charges at a pre-established ceiling.		Completed. The exemption was established by the 2002 Budget Act.
<i>Restructuring of distressed Insurance companies</i>	29.1. Presentation of technically acceptable scenarios for the restructuring of the most distressed insurance company precluding any use of the Guaranteed Fund resources.		29.2. Launch of the restructuring of the most distressed insurance company, preparation of recovery plans for under capitalized and under-provisioned insurance companies. (X)		Completed. The company El Ittihad was restructured without recourse to the Guarantee Fund resources. The new company has changed its status, (mutual) and is closely controlled.
PRIVATE SECTOR COMPETITIVENESS: Reform of the Information and Communication Technologies Sector					
<i>Develop an ICT sector policy promoting private participation in this sector.</i>				30.2. Preparation and publication of a plan for the medium-term ICT sector liberalization (2002-2006) and selection of a merchant bank to support the administration in the award of at least one VSAT license. (X)	Completed. Two VSAT licenses were awarded, one to Tunisia Telecom (legacy operator selected by the Tunisian State), the other to Divonna, 60 % owned by Tunisian capital (Planet) and 40 % to Monaco Telecom.

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	<p>31.1 Adoption of implementing texts for the new Telecommunications Code: (i) Decree on interconnection; (ii) Decree on easements; (iii) Decree on Approval of telecom equipment; (iv) Ministerial Order concerning numbering.</p>				<p>Completed by Decree N°2003-922 of 21 April 2003. All relevant texts adopted.</p>
	<p>32.1. Creation of a National Telecommunications Authority (independent body) and a National Frequency Agency (under the responsibility of the Ministry of Communication Technologies). Submission to the donors of draft amendments to the Telecommunications Code on the status and autonomy of INT.</p>			<p>32.2 Tabling before the Chamber of Deputies of the Bill amending the Telecommunications Code and status and autonomy of the INT. (X)</p>	<p>Completed by Decree N° 2003-922 of 21 April 2003. However, INT had few prerogatives and autonomy and MTC preserved its dominant role in the granting of licenses, price regulation and technical standards.</p>
	<p>33.1. Adoption of the Law on e-commerce and trade. Adoption of the implementing texts for the Law on e-commerce and trade, including personal data protection measures.</p>				<p>Completed. The implementing texts were adopted.</p>

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	34.1. Promulgation of a decree establishing the financial and administrative organization as well as the operating rules of the national agency responsible for providing approval of electronic certification.				Completed. The Telecommunications Study and Research Centre (CERT) was operational and serves as a single window for different certification operations.
<i>Introduction of effective competition in telecommunications</i>	35.1. Preparation of specifications for electronic certification service providers and publication of a decree indicating technical data regarding electronic certificates.				Completed. The Telecommunications Study and Research Centre (CERT) served as a single window for different certification operations.
	36.1 Launch (i) of international competitive bidding for the award of a second GSM license; and (ii) of shopping for the choice of a merchant Bank of international repute to support the administration in this sales operation			36.2. Award of a second GSM license through a competitive and transparent competitive bidding process; publication by Tunisia Telecom of a standard interconnection bid approved by INT. (X)	Unfulfilled condition. The two components of this condition were not fulfilled: transparency in the process of awarding a GSM license was called into question by the co-financiers; the interconnection catalogue was never published.
	37.1 Preparation of terms of reference for the choice of a consultancy firm to establish cost accounting within Tunisia Telecom.			37.2. Selection on the basis of international competitive bidding of the consultancy firm responsible for establishing cost accounting within Tunisia Telecom.	Completed. Establishment of cost accounting was underway in Tunisia Telecom by the end of the programme, conducted by an international consultancy firm.

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Annex 3

Macro-Economic indicators

Indicators	2001	2002	2003	2004
	(in percentage of annual change)			
Real GDP	4.9	1.7	5.6	6.0
GDP deflator	3.0	1.8	4.4	1.2
Consumer price index	1.9	2.8	2.8	3.6
	(in percentage of GDP)			
Gross investment	27.9	25.7	25.1	24.2
Including private	20.1	18.2	17.9	17.2
Gross national savings	23.7	22.2	22.2	22.2
Including private	18.7	17.4	18.2	17.7
Central Government Finance	(in percentage of GDP)			
Revenue (including grants)	24.3	24.8	23.9	24.1
Expenditure	27.8	27.8	27.0	26.8
Budgetary balance (net of grants and privatization)	-3.8	-3.5	-3.5	-2.9
Budgetary balance (including grants, net of privatization)	-3.5	-3.1	-3.2	-2.6
Total Government debt	62.8	61.6	60.9	59.7
Monetary sector	(in percentage of annual variation, unless otherwise indicated)			
Private sector loans	11.5	6.5	6.2	5.3
Broad money (M3)	10.3	4.5	6.8	10.3
Velocity of circulation (GDP/M3)	1.882	1.839	1.849	1.63
External Sector	(in percentage of GDP, unless otherwise indicated)			
Export of goods, f.o.b.	13.6	3.4	17.1	20.6
Import of goods, f.o.b.	11.2	-0.2	14.7	17.6
Trade Balance	-11.8	-10.1	-9.1	-8.7
Current account, net of grants	-4.3	-3.5	-2.9	-2.0
FDI	2.2	3.6	2.1	2.1
Total external debt	65.8	67.6	67.2	67.8
Gross reserves (in months of imports of goods and services)	2.3	2.7	3.0	3.5
Memorandum items				
GDP at current prices (USD million)	20.0	22.4	26.7	29.2
Unemployment rate (in percentage)	15.1	15.3	14.5	14.2
Net petroleum imports (USD million)	275.0	221.7	328.8	407.1
Real effective exchange rate (average annual change)	-2.4	-0.2	-5.0	-3.4

Source: Tunisian authorities and IMF