

AFRICAN DEVELOPMENT BANK



TUNISIA

MID-TERM REVIEW

**COUNTRY STRATEGY PAPER
2007 - 2011**

COUNTRY REGIONAL DEPARTMENT, NORTH 1 (ORNA)

October 2009

TABLE OF CONTENTS

		<u>Pages</u>
	List of Annexes, List of Graphs, List of Boxes, Acronyms and Abbreviations, Currency Equivalents and Executive Summary	i - v
1.	INTRODUCTION	1
2.	COUNTRY CONTEXT	1
2.1	Political Context	1
2.2	Recent Economic and Social Developments	1
3.	IMPLEMENTATION OF BANK GROUP STRATEGY AND MID-TERM OUTCOMES OBTAINED	4
3.1	Progress vis-à-vis the Expected Outcomes	4
3.2	Progress in Bank Interventions	5
3.3	Non-lending Activities: Economic and Sector Work, and Technical Assistance	7
3.4	Portfolio Management Issues	8
3.5	Aid Coordination and Harmonization Trend	8
3.6	Monitoring and Evaluation of Bank Group Assistance	9
4.	LESSONS FROM THE MID-TERM REVIEW	9
4.1	Lesson for the Bank	9
4.2	Lessons for the Government	11
5.	BANK STRATEGY FOR THE REMAINING CSP PERIOD (2009-2011)	11
5.1	Government's Mid-term Economic Policy Framework	11
5.2	Strategy for Achieving Expected Outcomes for the Remaining Period (2009-2011)	12
5.3	Country Dialogue	14
5.4	Risks and Mitigative Measures	15
6.	CONCLUSION AND RECOMMENDATION	15
6.1	Conclusion	15
6.2	Recommendation	15

This report was prepared following a Bank mission to Tunis from 15 June to early July 2009, and another from 28 to 9 October 2009. The missions led by Mrs Natsuko Obayashi, Principal Country Economist, ORNA, comprised Mr. Boukary Savadogo, Division Manager OSHD.2, Mr. Modibo Sangaré, Chief Transport Engineer, OINF.2, Mr. Zakou Amadou, Energy Expert OINF.3, Mr. Yahiaoui Ali, Lead ICT Expert, OINF.3, Mr. M. Ba Mamadou Samba, Principal Agronomist OSAN.1, Mr. Fabrice Sergent, Principal Health Analyst, OSHD.3, Mr. M'Baye Amadou, Water and Sanitation Expert, OWAS.2, Mr. Hyacinthe Kouassi, Principal Macro-economist, OSGE.2, Mrs. Line Picard, Principal Investment Officer, OPSM.4, Mr. Youssef Arfaoui, Investment Officer, OPSM.3, Mr. Budibunene Willy Ngandu, Portfolio Officer, OPSM.5, Mr. Charaf-Eddine, Principal Programme Officer, ORNA, one OSHD.2 Consultant and one OWAS Consultant. During the two missions, consultations were organized with government departments and stakeholders, including the private sector and development partners, to seek their opinion on the Bank's strategy in Tunisia.

LIST OF ANNEXES

Annex I	:	CSP Results Indicators
Annex II	:	Economic and Financial Indicators
Annex III	:	Original Programme 2007-2011 and Revised Programme 2009-2011
Annex IV	:	Status of Approved Projects (at end September 2009)
Annex V	:	Comparative Socio-Economic Indicators

LIST OF GRAPHS

Graph 1	:	Governance Indicators
Graph 2	:	Real GDP and Inflation
Graph 3	:	Doing Business 2008-2010
Graph 4	:	Breakdown of Operations by Sector
Graph 5	:	Destination of Tunisian Exports in 2008

LIST OF BOXES

Box 1	:	Crisis Mitigation Measures
Box 2	:	Impact of the Crisis on Bank Operations

ACRONYMS AND ABBREVIATIONS

ADB	:	African Development Bank
ADG	:	Agricultural Development Groupings
AFD	:	French Development Agency
AMU	:	Arab Maghreb Union
AWF	:	African Water Facility
BCT	:	Banque Centrale de Tunisie (Central Bank of Tunisia)
BH	:	Banque de l'Habitat
BNA	:	Banque Nationale Agricole
BTEI	:	Banque de Tunisie et des Emirats d'Investissement
BTS	:	Banque Tunisienne de Solidarité
CODE	:	Committee on Operations and Development Effectiveness
CPI	:	Consumer Price Index
CSP	:	Country Strategy Paper
ESW	:	Economic and Sector Work
ETAP	:	Entreprise Tunisienne d'Activités Pétrolières (Tunisian Oil Company)
EU	:	European Union
EUR	:	Euro
FAPA	:	Fund for African Private Sector Assistance
FDI	:	Foreign Direct Investments
GDP	:	Gross Domestic Product
HDI	:	Human Development Index
ICT	:	Information and Communication Technologies
IME	:	Mechanical and Electronic Industries
MDCI	:	Ministry of Development and International Cooperation
MDG	:	Millennium Development Goals
MENA	:	Middle East and North Africa
MIC	:	Middle Income Country
MIC-TAF	:	Middle Income Countries Technical Assistance Fund
MTEF	:	Medium-Term Expenditure Framework
NPL	:	Non-performing Loans
OECD	:	Organisation for Economic Cooperation and Development
OSS	:	Sahara and Sahel Observatory
PAC	:	Competitiveness Support Programme
PAES	:	Secondary Education Support Project
PAI	:	Integration Support Programme
PDAI	:	Integrated Agricultural Development Programme
PDRI	:	Integrated Rural Development Programme
PEFA	:	Public Expenditure and Financial Accountability
PISEAU	:	Water Sector Investment Project
SME	:	Small and Medium-sized Enterprises
STB	:	Société Tunisienne de Banque
STEG	:	Société Tunisienne d'Électricité et de Gaz (Electricity and Gas Corporation)
TGV	:	High-speed Train
TND	:	Tunisian Dinar
UA	:	Unit of Account (Bank Group)
USD	:	United States Dollar
WB	:	World Bank

CURRENCY EQUIVALENTS

(October 2009)

UA 1	=	TND 2.06939
UA 1	=	USD 1.58437
UA 1	=	EUR 1.08200

FISCAL YEAR

1 January to 31 December

EXECUTIVE SUMMARY

1. The Board of Directors approved the Bank's Country Strategy Paper (CSP) on 28 March 2007. The CSP which is in line with the Government's XIth Development Plan, covers the same 2007-2011 period and supports its major objectives, namely growth and job creation. The CSP is based on three pillars: (i) strengthening of macro-economic policies and acceleration of reforms; (ii) modernization of infrastructure and reinforcement of the productive sector; and (iii) consolidation of the human capital.

2. Based on a combination of economic development and social balance, the Tunisian model shows satisfactory performance in terms of the country's development and political stability. Concerning Governance, Tunisia occupies a good position, above the average for the Middle East and North Africa region (MENA), and far higher than the average for Sub-Saharan Africa. Regarding economic performance, after record growth in 2007, the Tunisian economy was affected by the global economic situation, soaring prices up to mid-2008 and the global recession. In 2007 (the first year of the Government's XIth Five-Year Plan), GDP growth reached 6.3%, exceeding for the first time the target of 6.1%, which is the threshold considered necessary to reduce the unemployment rate. However, growth dropped to 4.6% in 2008. During the first half of 2008, the rise in world oil and food prices generated inflationary and budgetary pressure. Subsidies on these products helped to curb inflation, which nonetheless reached 5.0% on average in 2008 against 3.1% in 2007. Although the Tunisian financial sector has been relatively spared by the financial crisis, the economy has been affected by the recession in Europe, the destination of 72% of Tunisia's exports. The crisis has also slowed down FDI from the Middle-East and major construction projects which would have helped to revitalize the economy. By end 2008, the Government took a series of measures to support exporting industries, along with a countercyclical budget with an increase in public investments. That should lead to a budget deficit of 3.8% in 2009, after 3% and 1.1% in 2007 and 2008, respectively. In 2009, growth could drop to 3%, with an annual average price stabilization of 3.5%.

3. Since 1968, the Bank Group has approved 99 operations for cumulative net commitments amounting to UA 3 850.73 million. The current portfolio comprises 11 operations, with net commitments of approximately UA 860 million. The public sector accounts for 82% of the current portfolio. The portfolio mainly comprises infrastructure projects (71%). The projects are relatively young, with the mean age at only 2.6 years. The disbursement rate of active projects is 55.3%. The 2008 portfolio review showed that the portfolio in Tunisia was particularly effective and improving. With an overall score of 2.7 points on a scale of 3 in 2008, against 2.53 in 2005, this portfolio's highly satisfactory performance is among the Bank's best and does not comprise risky projects. The key issues raised by both the portfolio review and the authorities concern the Bank's procedural delays (notably procurements and disbursements), mainly attributable to the shortage of staff dedicated to Tunisia's portfolio despite its size. Similarly, to improve the quality of its assistance, the Bank is actively turning to using experts to conduct economic and sector work, and technical assistance. Lastly, lessons were drawn to address the need for South-South cooperation, enhance the strategic mainstreaming of environmental issues and strengthen information and communication on Bank operations in Tunisia.

4. The progress achieved in terms of implementing the Bank's strategy is satisfactory overall, compared to the initial objectives and taking into account the current economic situation, in

particular with respect to the first two pillars. The outputs under the third pillar have remained limited. Therefore, strategic activities on this pillar are being initiated to accompany the institutional changes in the sectors concerned.

5. During the first phase of the CSP, Tunisia faced major challenges, namely the price hikes up to mid-2008, then the global recession since the end of 2008. Despite these difficulties, the country was able to put up a relatively good economic performance, albeit short of the initial ambitions of early 2007. The Government is pursuing efforts to achieve its employment and growth targets. The Bank's strategy aims at meeting the country's expectations during this crucial period. To help the country cope with its challenges, the Bank's strategy over the period 2009-2011 while remaining unchanged, will take lessons learned into account. It will continue to underscore the first two pillars: (i) strengthening of macro-economic policies and acceleration of reforms; and (ii) modernization of infrastructure and strengthening of the productive sector for sustainable development. Concerning the third pillar (iii) - consolidation of human capital - which underpins the first two pillars, the Bank will strive to enhance its interventions with a view to making strategic contributions to the country's priorities.

6. The Board of Directors is invited to approve the Bank Strategy in Tunisia for the remaining CSP period, 2009-2011. The Bank strategy remains overall unchanged and will be implemented through the "benchmark scenario" which provides for a financial package of sustainable loans of an indicative annual amount of UA 300 to 400 million. The volume of this package could vary according to the portfolio risk profile and the flexibility required for a middle-income country such as Tunisia.

1. INTRODUCTION

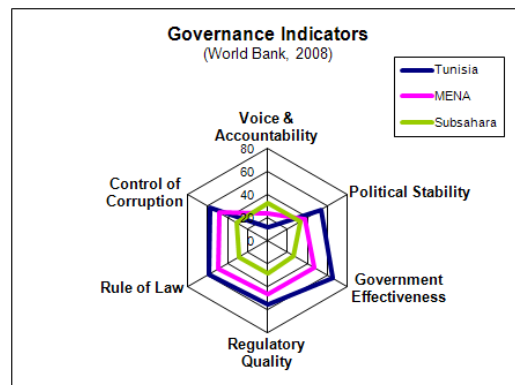
1.1 The main purpose of this mid-term review is to monitor and evaluate the progress achieved to date in implementing the Country Strategy Paper (CSP) 2007-2011 for Tunisia, with a view to drawing lessons and making necessary adjustments over the period 2009-2011. The Board of Directors approved the CSP on 28 March 2007. The strategy, which is in line with the key priorities of the country's XIth National Development Plan, is based on three pillars: (i) development of macro-economic policies and acceleration of reforms; (ii) modernization of infrastructure and strengthening of the productive sector; and (iii) consolidation of human capital.

1.2 During the approval of the CSP, the Board urged the Government to implement its development strategy, which aims at strengthening economic competitiveness while maintaining the stability of the macro-economic framework, with special efforts geared towards reducing overall foreign debt. It encouraged the Government to pursue and accelerate reforms, especially as regards the revitalization of the banking and financial system, and improved governance. Ever since, the Government has accelerated and deepened economic reforms, thus enabling the country to consolidate its external position and macro-economic stability, improve economic competitiveness through gradual liberalization and better integration of Tunisia into the global economy. Reforms are under way to revitalize the financial sector and improve governance notably in the areas of public finance and the business environment.

1. COUNTRY CONTEXT

2.1 Political Context

Based on a combination of economic development and social balance, the Tunisian model has performed satisfactorily both in terms of the country's development and its political stability. Stability characterizes the Tunisian political environment. Presidential and legislative elections were held end October 2009, without upsetting the political landscape. In terms of governance, Tunisia occupies a good position, averaging above the Middle East and North Africa region (MENA), and higher still compared to the rating for sub-Saharan Africa.



2.2 Recent Economic and Social Developments

2.2.1 *After record growth in 2007, the Tunisian economy was affected by the international economic situation, soaring prices up to mid-2008, and the global recession.* In 2007 (the first year of the Government's XIth Five-Year Development Plan), GDP growth reached 6.3%, exceeding for the first time the target of 6.1% - the threshold deemed necessary to reduce the unemployment rate. However, the growth dropped to 4.6% in 2008, a year marked by contrastive trends. During the first half of that year, the rise in world oil and food prices generated inflationary and budgetary pressure. Subsidies on these products helped to curb inflation, since

approximately one-third of the price index basket is composed of administered prices. However, the increasingly unbearable weight of these subsidies on the budget has prompted the Government to adjust domestic prices. As a result, inflation averaged 5.0% in 2008 against 3.1% in 2007, in spite of the subsidies which accounted for 4% of GDP in 2008, compared to 2.8% in 2007. The impact of the financial crisis on the Tunisian economy began to show from October 2008. Starting December 2008, the Government took a series of measures (see Box 1) to support exporting industries. In 2009, growth dropped to 3%, with an annual average price stabilization of 3.5%.

Box 1: Crisis Mitigation Measures

Faced with declining exports, the Government prepared a countercyclical budget for 2009, increasing public investments by more than 20%, implementing economic support measures and offering investment incentives. Government's reaction to the crisis combined revival and structural measures at the economic and social level. Among the revival measures, a series of 43 measures were adopted end December 2008, notably for exporting companies. These measures were renewed and extended to the entire exporting industry sector from July 2009 up to end 2009. The measures targeting the export sector aim at limiting the impact on employment and supporting cash-strapped companies (financing part of employer's contribution, export insurance premium, tax relief, etc). Similarly, structural reform measures were announced as part of action to mitigate the crisis. These measures result mainly from PAI (the reforms program supported by the Bank, the World Bank and the European Union). They notably concern the improvement of the economy's competitiveness and incentives to FDI, while also counting on the delocalization of European production. The Central Bank has also taken a series of measures to stimulate the economy, including the easing of exchange control for exporting companies, the softening of the monetary policy and the lowering of the prime rate.

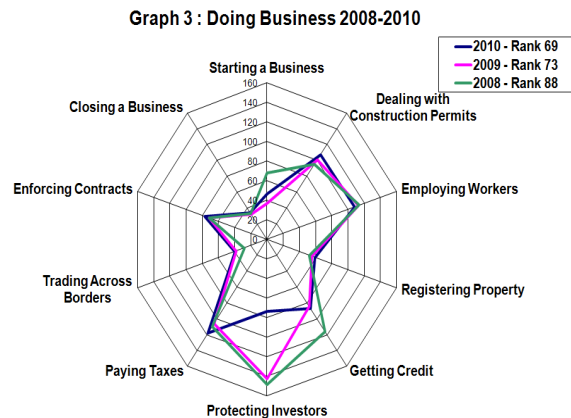
2.2.2 *Faced with these contrastive trends, the monetary policy has been responsive and has adapted to the change in the economic situation.* Inflation peaked in April 2008, reaching 6% year-on-year. The BCT responded by tightening its monetary policy from the second half of 2007, in particular by raising the minimum reserve requirement ratio from 3.5% to 5% end November 2007, then to 7.5% end April 2008. With the reversal of the economic situation end 2008, the BCT decided to loosen its monetary policy by reducing its minimum reserve requirement ratio. In February 2009, it lowered the prime rate which had remained fixed since mid-2006, from 5.25% to 4.5%. The M3 money supply increased by 14.4% in 2008, against 12.5% in 2007. The situation of surplus liquidity which had developed since March 2008, reached its peak in September, before the intervention of the Treasury, but the money market remains largely in surplus. Similarly, Tunisia is preparing to apply an inflation targeting policy. Measures are gradually being put in place to revitalize the money markets and ensure full convertibility of the dinar, which constitute the prerequisites for inflation targeting.

2.2.3 *At the budgetary level, despite subsidy expenditure, the budget deficit was well contained at 3% in 2007 and 1.1% in 2008, thanks in particular to the increase in tax revenue (+19.1%) which more than offset expenditure (+14.8%) in 2008 when subsidies represented nearly 20% of expenditure.* In 2009, the Government prepared a countercyclical budget with an increase in capital expenditure of more than 20% compared to the 2008 budget, and notably with a pump-priming budget of TND 730 million which was adopted in the supplementary finance law of July 2009. That should lead to a budget deficit of 3.8%, above the 3% threshold for the first time since 2005. Concerning the public debt, it should be noted that the Government had

undertaken a debt clearing policy, thanks to which it was able to reduce the public debt burden from 58.3% of GDP in 2005 to 47.5% in 2008. However, the current economic situation could temporarily jeopardize this downward trend. The Government is trying to contain public debt below the 50% ceiling in 2009 and 2010. In addition, since 2007, the Government has gradually introduced the MTEF and objective-based budgeting which should be generalized by 2011. PEFA is being prepared with the participation of the World Bank, the European Union and the Bank.

2.2.4 At the external level, the current balance deficit worsened from 2007 to 2008 from 2.6 % to 4.2% of GDP, following the increase in oil and food imports and the rise in capital goods imports. The deficit is financed by FDI flows (TND 3.6 billion in 2008 against 2.1 TND billion in 2007) and foreign exchange reserves amounting to approximately 5 months of imports. In 2009, the current account deficit should fall to about 3.1%, thanks to the stabilization of oil and food prices and declining exports (-21.3% in value during the first seven months of year 2009), which should be almost offset by falling imports (-19% in value). The sectors most affected by the crisis are the export sectors, notably the textile, mechanical engineering and electronic industries (MEI), which alone represent nearly 60% of the country's overall exports. FDI fell by -33% at end July 2009 compared to the same period in 2008, due notably to the suspension and slowdown of investments in major construction projects. The tourism sector resisted the crisis relatively well, with the limited decline in European tourists compensated by the increase in visitors from the Maghreb, particularly Libyans and Algerians. During the first seven months of 2009, tourism receipts rose by 4.9%. Moreover, migrant remittances which constitute approximately 5% of GDP, account for about 21% of national savings and make up the fourth source of foreign exchange, increased by 8.6% during the first seven months of 2009, thanks notably to the foreign exchange effect. Its growth is estimated at 5.9% for 2009.

2.2.5 Tunisia is pursuing reforms in the business environment alongside trade integration efforts, in a bid to attract FDI and revitalize local enterprises. These reforms concern both the structural aspects of the economy (e.g. liberalization and privatization) and targeted measures, among which the streamlining of procedures for starting a business, one-stop shop for formalities, elimination of the requirement of a minimum capital, significant reduction of administrative authorizations, improvement of the competition framework, various provisions contained in the Economic Initiative Law (December 2007), a new Concession Law (April 2008), a new Commercial Companies Code (March 2009) etc. These efforts have enabled the country to significantly improve its ranking over the past two years, reaching the 69th position in the world (among 183 countries) or the 5th in Africa in Doing Business 2010, compared to 81st in the 2008 world ranking. Similarly, Tunisia ranks 36th in the world and 1st in Africa in the 2009 Africa Competitiveness report (ADB, World Bank).



2.2.6 *The good economic performance was accompanied by proactive social policies which strongly contributed to a marked improvement of all social indicators.* The poverty rate dropped from 6% of the population in 2000 to 4.2% in 2004, then further to 3.8% in 2007. It should reach a level below 3.22% by 2015. Therefore, Tunisia is among the countries that will achieve the Millennium Development Goals (MDGs). With a human development index (HDI) of 0.766 in 2008, it ranks 91st in the world among 177 countries, in the group of countries enjoying “average development”. Despite this commendable social performance, there are still “grey areas” where the unemployment rate is particularly high. These are regarded as priority development areas benefiting from special development programs. The Tunisian population is estimated at 10.3 million (2008) with slowing demographic growth (1.18% in 2008) and the lowest fertility index in the Arab world (2.03 in 2007).

2.2.7 *In spite of sustained economic growth, the unemployment rate remains significant (14.2% in 2008) and is one of the major societal and policy issues facing the governmental.* The elasticity of job creation compared to the growth rate is relatively low (estimated at 0.45-0.47). In particular, the unemployment rate among young graduates (17.5% in 2006 or 42.5% of the jobless population) is one of the country’s major concerns.¹ Many active employment policy programmes have been unable to reduce the increased demand for jobs. The Government is in the process of rethinking its active employment policies. Similarly, there are provisions under the XIth Plan to attract investment in the innovative sectors so as to increase the elasticity of job creation compared to the growth rate, and in particular reduce the number of job applications from young graduates. At the same time, higher education and vocational training reforms are underway to improve the employability of young graduates.

3. IMPLEMENTATION OF BANK GROUP STRATEGY AND MID-TERM OUTCOMES OBTAINED

3.1 Progress vis-à-vis the Expected Outcomes

3.1.1 Annex 1 shows the main progress achieved vis-à-vis the expected outcomes, compared to the initial programming. The performance is satisfactory overall, compared to the original objectives and considering the current economic situation, notably concerning the first two pillars, namely: (i) strengthening of macro-economic policies and acceleration of reforms; and (ii) modernization of infrastructure and strengthening of the productive sector. Nonetheless, the crisis has affected the indicators relating to the first pillar, in particular the 2009 budget deficit (3.8% of GDP). However, the trend on average remains under the 3% threshold (3% in 2007, 1.1% in 2008) and the 2011 horizon is maintained. The second pillar was the most dynamic of the three, so much that additional projects were initiated, thus contributing to strengthening the dynamics. Most indicators under the pillar are progressing satisfactorily in line with the set objectives and the activities adopted. As a result, transport sector projects have contributed significantly to enhancing the country’s capacity, while agricultural and water sector projects have considerably improved the social and environmental indicators.

¹ This is a phenomenon combining an increase in the share of the working population due to demographic trends (15-59 year age bracket accounts for 65% of the population) and improvement of the education level (increase in number of graduates at an annual rate of 41% since 2002-2003).

3.1.2 The scale of outputs under the third pillar is still limited, although there has been progress. The new strategic activities, such as the establishment of an epidemiologic disease prevention system, the health services export strategy and a health sector strategy operation are planned for the second phase of the CSP. This will help to strengthen the strategic importance of the third pillar.

3.2 Progress in Bank Interventions

3.2.1 *Pillar 1 - Strengthening of macro-economic policies and acceleration of structural reforms – comprised the following three strategic objectives: (i) improvement of the business environment; (ii) modernization of the financial sector; and (iii) improvement of public administration.* PAC-III has contributed to these three strategic objectives, through its components relating to the stable and reactive macro-economic framework (tax consolidation and preparation of an MTEF), the private investment environment and strengthening of the financial sector (banking and insurance, financial transparency). The recently introduced economic reform program is entitled PAI (Integration Support Program) (instead of PAC IV initially envisaged in the CSP). PAC-III also contributes to these three strategic objectives, through: (i) reducing transaction costs and deepening commercial integration; (ii) improving the business environment; and (iii) improving access to financing. These programs have helped the country to improve its indicators, both with regard to its business environment (except for the budget deficit which has increased temporarily due to the crisis) and financial sector (see Annex 1). For its part, public administration reform is partially supported by PAC-III and PAI, as well as certain studies envisaged. However, there is no specific operation concerning this issue as initially suggested in the CSP. Similarly, the Governance Profile has not been prepared - the Bank no longer conducts that exercise (replaced with PEFA, initiated jointly with the WB and the EU). Lastly, the Bank is involved in preparing various analytical tools strategic to the Institution and the country.

3.2.2 *Pillar 2 - Modernization of infrastructure and strengthening of the productive sector - comprised two strategic objectives: (i) modernization of infrastructure; and (ii) strengthening of the productive sector through SMEs, agriculture and natural resource management* Within the framework of the first strategic objective concerning infrastructure, particularly transport, the Bank approved Road Project V and the Enfidha Airport Construction Project during the period 2007-2009, via the public and private windows, respectively. The Road Project V outputs have come to supplement those under the ongoing Classified Road Network Development Project IV and the Rail Network Modernization Project II, thus contributing to modernizing the national transportation systems. Progress has been made in terms of the kilometres of road modernized, although delays have been recorded on the rail network outcomes. In the air sub-sector, the Enfidha International Airport Construction Project will boost the national airport capacity and create direct connections to the Sousse, Monastir and Hammamet regions. Furthermore, under public utilities, the Electricity Distribution Network Improvement Project (Electricity VI) will be completed end 2009, and will be relayed by a new Electricity Distribution Network Improvement and Restructuring Project (Electricity VII). These projects guarantee the continuous improvement of indicators in terms of distribution service quality and energy efficiency. (Annex 1)

3.2.3 Concerning the second strategic objective of strengthening the productive sector, the Bank has completed three integrated agricultural development projects (PDAI) at Gabès, Gafsa and Kasserine, as well as three line of credit operations (BTEI, BNA, BH), and has maintained funding for the Kairouan PDAI. The agricultural projects have made it possible to cope with national development challenges, notably the scarcity of water, the need to enhance the efficiency of irrigation infrastructure and use of salty or brackish water; scarcity and erosion of arable land, the need for soil and water conservation and farmers' sensitization; and development of the capacity of farmers' cooperatives. These actions will be consolidated by the Water Sector Investment Project (PISEAU II), approved in December 2008, and a Support Grant to Agricultural Development Groupings (ADG) (from the MIC Trust Fund). The lines of credit have contributed to the growth of the prime movers of the economy, namely the manufacturing industry and services, as shown in the table in Annex 1. Hitherto a preferred instrument of Bank interventions in Tunisia, this method could however not be used following the adoption of the ongoing CSP. Furthermore, to improve natural resource management and through it the economic impact of fluctuations in hydrocarbon prices, the Hasdrubal Oil and Gas Field Project was approved in October 2008. However, due to withdrawal by commercial banks, the Bank is considering transforming this project into a loan to ETAP. It should be noted that the private sector window plays a major role under this pillar, notably by promoting and implementing public/private partnership, in particular since the adoption of the new law on concessions in April 2008.

3.2.4 ***Pillar 3 - Consolidation of human capital*** - aims at supporting one of the main objectives of the XIth Plan (2007-2011) relating to social and human development, particularly youth employment. The employment issue which underpins the growth target of the XIth Plan constitutes the core Government concern. In terms of Bank operations, the Secondary Education Support Project (PAES) II already under way during the adoption of the CSP, is the only operation supporting Pillar 3. In particular, it has contributed to improving the secondary school enrolment rate. Studies and technical assistance are being initiated to strengthen dialogue with the authorities and the Bank's contribution to the pillar.

Box 2 – Impact of the Crisis on Bank Operations

In response to the economic crisis, the Bank has supported the country primarily through the following two methods:

- Increased budgetary support, PAI, to USD 250 million (approved by the Board in April 2009). The Bank thus supported the Government's response to the crisis, namely accelerating and deepening reforms (§ 4.2.2 and Box 1).
- Support to private investment, to substitute withdrawal of part of private funding for the Enfidha Airport Project (approved in January 2009 for EUR 70 million).

Nevertheless, the crisis has had a negative impact on certain types of Bank operations:

- The fall in hydrocarbon prices has made the Hasdrubal Oil and Gas Project (approved in November 2008) definitely less attractive. This has led to the withdrawal of private funding and thus a readjustment of the financing plan. The Bank plans to transform this project into a loan to ETAP, of which the Hasdrubal Project forms part.

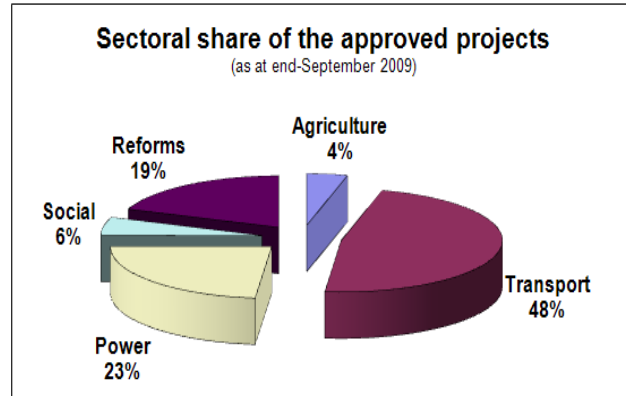
The crisis has further diminished the visibility of the lending programme of the Bank Group's private sector window, by increasing the uncertainty of private projects and the difficulty of stabilizing their financing plans.

3.3 Non-Lending Activities: Economic and Sector Work, and Technical Assistance

The work done by the Middle Income Countries Task Force, the mid-term review of the Bank Group strategy for 2008-2012 and the 2008 review of the Bank's portfolio in Tunisia underscored the need to emphasize the provision of targeted expertise such as the economy and sector work, as well as technical assistance. All of this has enabled the country team to refocus its interventions on reinforcing activities related to expertise and capacity building. Such refocusing is reflected in the significant increase in the number of recently introduced non-lending activities (see Annex 3, in italics). For instance, Tunisia has so far benefited little from the MIC Fund (1.6% of total approvals of the MIC-TAF). However, thanks to increased dialogue with the authorities in that regard, the Bank has noted major needs which it can help address by providing technical support. These ESWs help to identify strategic orientations for the Bank and the country. They involve either preliminary studies to future projects or studies, discussions and activities relating to the development of strategies or the initiation of a new policy guideline for the country.

3.4 Portfolio Management Issues

3.4.1 The Portfolio comprises 11 operations², with net commitments of approximately UA 860 million. The public sector accounts for 82% of approved amounts. The portfolio comprises mainly infrastructure projects (71%). The projects are relatively young, with the mean age at only 2.6 years. The disbursement rate of active projects is 55.3%. The portfolio review presented to the CODE on 27 January 2009 showed that the portfolio in Tunisia was particularly effective and improving. With an overall rating of 2.7



points on a scale of 3 in 2008, against 2.53 in 2005, this highly satisfactory portfolio performance is among the Bank's best and does not comprise risky projects. It shows an improvement resulting from the Bank's intensified monitoring of its operations and better control of project management.

3.4.2 The key portfolio review recommendations focus on issues related to disbursement deadlines and procurement procedures, including the application of post-procurement review. However, as regards monitoring of its assistance, solutions must be sought, notably by strengthening the units in charge of the portfolio and Tunisia (see § 4.1.2). Furthermore, in accordance with the recommendations of the portfolio review, the Bank in 2009 organized training and information workshops on project monitoring/evaluation and auditing for project managers. Similarly, following the change of procurement rules and thus at the request of the authorities, the Bank also plans to organize a training workshop on new Bank procurement procedures. CODE has also requested the Bank to consider allowing countries such as Tunisia with sufficient capacity and limited fiduciary risk greater flexibility in applying Bank procurement procedures.

3.5 Aid Coordination and Harmonization Trend

3.5.1 As the government departments have adequate managerial capacity, it is the Government which carries out the programming and coordination of donor interventions in Tunisia. Therefore, coordination between partners is more on an ad hoc basis. A number of attempts have been made to formalize the coordination framework, but to little effect. One of such involved setting up Thematic Coordination Groups, initiated in 2005 by the European Union. The topics chosen for these Groups focused on the following areas: (i) Governance, Democracy, Justice and Civil Society; (ii) Infrastructure, Environment and Natural Resources; (iii) Economic Reforms and Governance; (iv) Private Sector, Trade and Economic Integration; and (v) Social Sectors, Migration and Culture. However, actual coordination is more ad hoc in nature, in the form of consultations and information exchange between partners involved in similar areas/operations.

² Comprising approved projects, including projects not yet signed and/or effective.

3.5.2 In contrast, harmonization among donors is very advanced in cases of co-financing. The budgetary supports (CAP III and PAI) represent the only case of a program completely harmonized with the other two co-financiers (the World Bank and European Union). They are based on matrices of common measures, common disbursement conditions, joint missions and thus concerted positions. Similarly, PISEAU II is another rare example of harmonization in project form, since the procurement procedures were harmonized with the other two co-financiers (the World Bank and AFD).

3.6 Monitoring and Evaluation of Bank Group Assistance

3.6.1 With an overall rating of 2.7 points on a scale of 3 against 2.5 in 2005, the 2008 portfolio review showed that the portfolio performance is not only highly satisfactory but is improving. Monitoring and evaluation have improved since the Bank's relocation to Tunis, the proximity facilitating contacts and exchanges. Moreover, actions have been intensified to further improve portfolio performance while resolving problems identified. Thus, in line with the recommendations of the portfolio review, a series of training and information seminars are organized, including on monitoring and evaluation of projects and Bank assistance. In addition, the Bank is putting in place a series of measures and reflecting on ways to improve the monitoring of its assistance (§ 3.4.2).

3.6.2 Furthermore, the Government is putting in place a monitoring and evaluation mechanism for development plans. Thus in 2009, the Government conducted a mid-term evaluation of the XIth Plan as well as the development of a new rolling plan which covers the intermediate period (2010-2014) before the XIIth Plan (2012-2016). Therefore, aligning the Bank's strategy with the Plan will enable the Institution to align the monitoring and evaluation of its assistance with that of the Government.

4. LESSONS FROM THE MID-TERM REVIEW

4.1 Lessons for the Bank

4.1.1 Procedural timeframes: deadlines for disbursement and issuance of non-objection notices on project procurement dossiers are among the key concerns of the authorities. For that reason, they constitute the first recommendation of the portfolio review. One of the solutions, which also forms part of recommendation of the portfolio review, was to envisage a post-review of certain types of contracts (§ 3.4.2). The post-review could partially resolve the bottlenecks constraining the implementation of projects. Indeed, Tunisia's portfolio is characterized by its size, the large number of contracts and the relatively high loan amounts. It should however be noted that the basic problem is due mainly to the shortage of staff assigned to projects in Tunisia.

4.1.2 Bank services dedicated to Tunisia: although the Bank is temporarily located in Tunisia and whereas the opening of the Tunisia Office was approved prior to the Bank's relocation, the Institution does not have an office dedicated to this country. Hence, compared to countries that have a similar portfolio size and a field office, the Bank's services remain limited compared to the needs. Despite the portfolio size and Tunisia's status as temporary host country, the Bank does not grant it any special services. The services and staff responsible for Tunisia are

the same as for any other country without a field office. As Tunisia is among the Bank's leading borrowers, the strengthening of its status and enhanced Bank services to the country deserve consideration. This would also help to address one of the key concerns of the authorities, namely the lengthy time that it takes the Bank to respond, especially on issues regarding disbursements and the issuance of non-objection notices on project procurement dossiers.

4.1.3 *Economic and sector work, and technical assistance:* one of the major weaknesses of Bank operations in a country such as Tunisia has been the lack of analytical work. The Bank is expected to play a role beyond merely financing its operations; such work must have a solid analytical basis, thus providing value added. Discussions have been initiated in several sectors for the Bank to play an active part in analytical work. This approach was notably reinforced by the recommendations of MIC Task Force (October 2008) and the Bank Group's Medium-term Strategy (December 2008). Thus, a series of ESW and technical assistance has been initiated in several sectors. Faced with the new growing demand, the methods for financing ESW for a country such as Tunisia remain limited within the Bank, apart from the MIC Technical Assistance Fund. Furthermore, the bureaucracy and lengthy procedures associated with the MIC Technical Assistance Fund also constitute a concern for the authorities. There is ongoing reflection at the Bank to streamline procedures.

4.1.4 *South-South and regional cooperation:* the Bank regularly receives requests to support South-South cooperation, both from the public and private sector. Indeed, there is a strong demand for the Bank to play a more active role in this domain, notably through: (i) the development of cooperation and transfer of Tunisian expertise to other African countries (environment, ICT, private sector development, etc.); and (ii) regional integration. The Bank supports the second component through transport projects that fall within the inter-Maghreb regional framework, regional activities and projects (Institutional Support to the AMU, Assistance to OSS, the Maghreb Equity Fund). It should however explore more suitable instruments for supporting cooperation initiatives between African countries, such as the continental ICT Centre of Excellence, the study on the possibility of STEG Internationale providing technical assistance abroad, or the study on Tunisian exports to Africa, all of which feature under the second phase of the CSP.

4.1.5 *Environmental issues:* an arid country, Tunisia faces environmental challenges as do many other African countries. It strives to cope by adopting the necessary technologies and investments for sustainable development. At the same time, the Bank has made environmental issues an institutional priority, notably by setting up a unit in charge of Climate Change and Sustainable Development. Therefore, Bank activities in Tunisia are increasingly geared towards a sustainable development approach, especially through the multiplication of water sector activities. However, these activities were in the past not pursued within a strategic framework. The current CSP Mid-term Review will help to refocus such activities within a strategic context through increased emphasis on sustainable development and natural resource management under the second pillar. The second pillar as a whole should gradually take into account environmental concerns, including infrastructure projects.

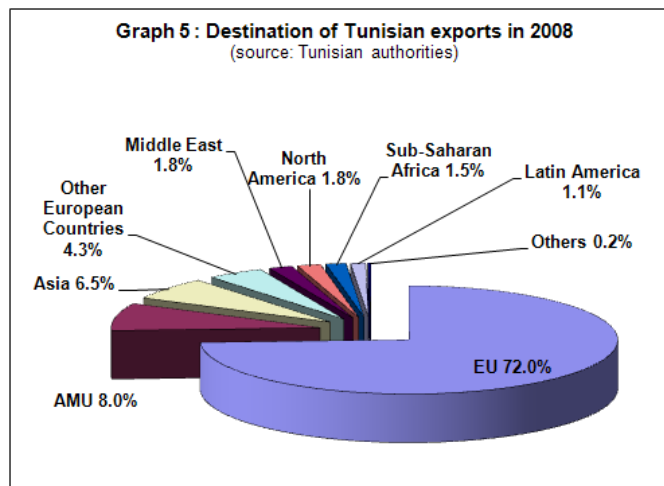
4.1.6 *Information and communication:* lastly, it is important to strengthen communication so as to improve the visibility of Bank operations. Although the seat of the Bank is temporarily in Tunis and the Bank is among Tunisia's leading development partners, the importance of its

interventions and its role in the country's development is almost unknown to the public. Hence, the need to pay greater attention to the communication issue, which could not only constitute an effective means to strengthen partnership with the country but also improve the Bank's image in the host country.

4.2 Lessons for the Government

4.2.1 Tunisia traditionally has five-year plans, which are an effective policy guideline and programming tool for development action in all sectors. With the fluctuating economic situation, the need to re-evaluate and possibly re-orientate these five-year plans was noted. Thus, in 2009, the Government decided to conduct a mid-term review of the XIth Plan and initiate for the first time the preparation of a "rolling Plan" covering the period 2010 – 2014, between the XIth Plan (2007-2011) and the XIIth Plan (2012-2016).

4.2.2 As regards economic reforms, Tunisia is pursuing and deepening its reforms. Faced with the economic crisis, Tunisia in December 2008 announced structural reform measures among plans deployed to combat the crisis (see Box 1). This shows the Government's constant commitment to pursuing the path of opening up and integrating the global economy. These reform measures are among the PAI measures supported by the Bank. The crisis has also further proven the need to diversify trading partners. Although Tunisia has a largely diversified productive base in terms of products, it remains heavily dependent on a limited number of countries (72% of its exports in 2008 were destined for EU countries, with France and Italy alone absorbing 50% thereof). Conscious of the stakes, the country is multiplying action to vary its trading partners, notably through bilateral and regional free trade agreements, strengthening regional integration and promoting new markets especially in sub-Saharan Africa. The Bank is committed to contributing to that process.



5. BANK STRATEGY FOR THE REMAINING CSP PERIOD (2009 - 2011)

5.1 Government's Medium-Term Economic Policy Framework

The XIth Plan (2007-2011) aims to deepen reforms and accelerate its pace in the following key areas: (i) consolidate stability of the economy and strengthen its integration into the global system to improve its capacity and accelerate growth; (ii) lay the foundations for integral development; (iii) modernize the economic fabric by opting for a knowledge-based economy; (iv) strengthen investment in human resources; and (vi) adopt sector policies that best fulfil the requirements of modernization and diversification of the economic fabric. The Plan envisages achieving an annual growth rate of 6.1% (the threshold that should help reduce the unemployment rate) and maintaining inflation at 3%. Qualitatively, the XIth Plan aims to

increase per capita income from TND 4522 to TND 6000 and reduce the unemployment rate (14.1% in 2007) by one percentage point. The Plan provides sector policy guidelines and envisages the implementation of structuring mega-projects for the key sectors (ports, airport, refinery, new tourism stations, power plants, cement factories, motorways, technopoles, etc). The Government recently conducted a mid-term evaluation of the XIth Plan which provides a review of the concrete actions taken to achieve the set goals. Lastly, the "Rolling Plan" to cover the period 2010-2014, i.e. the intermediate period between the XIth Plan (2007-2011) and the XIIth Plan (2012-2016), is being prepared and expected to be finalized in early 2010. The purpose is to maintain the major thrusts of the XIth Plan in the Rolling Plan, which will be used mainly to refocus certain actions and programs to achieve the country's major objectives.

5.2 Strategy for Achieving the Expected Outcomes for the Remaining Period (2009-2011)

5.2.1 The Bank Strategy for 2009-2011 remains unchanged, in line with the main thrusts of the XIth Plan which have been maintained by the Government. The lending operations will focus mainly on the first two pillars. Concerning the third pillar which underpins the first two, the Bank will strive to reinforce its interventions so as to make a strategic contribution to the country's priorities. The Strategy will support key Government objectives, namely revitalization of growth and employment. It takes into account the lessons drawn (§ 4.1-4.2), in particular the importance of analytical work and the need to support reforms and diversify trading partners. The indicative lending programmes and ESW are presented in Annex 3.

5.2.2 ***Pillar I - Strengthening of macro-economic policies and accelerating structural reforms – will seek to further integrate the country into the global economy by: (i) deepening trade integration, (ii) improving the business environment; and (iii) revitalizing the financial sector.*** Consolidating the macro-economic framework and public administration was considered the underframe of the pillar. However, although Bank actions also contribute to improving public administration, no specific operation related to that is envisaged as initially suggested in the CSP. Hence, among the three initial strategic objectives of the pillar, that on public administration improvement will be replaced with the deepening of trade integration.

5.2.3 Bank support to this pillar during the period 2009-2011 is based on the Integration Support Program (PAI). At the same time, discussions are under way to initiate a series of ESW to assist dialogue and the reform process. This concerns the study on trade integration with sub-Saharan Africa (MIC-TAF), the study on the strategic positioning of the accounting profession (FAPA), the health services export strategy study (MIC-TAF), the study on streamlining the administration (jointly with OECD) and the PEFA (jointly with the World Bank and the European Union), all of which are either in the preparation or implementation phase. Technical assistance to the Tunisian Institute of Competitiveness and Quantitative Studies is also under way. PAI II is scheduled for 2011. At the regional level, an institutional support to AMU is also ongoing.

5.2.4 ***Pillar II - Modernization of infrastructure and strengthening of the productive sector for sustainable development – will comprise the two strategic objectives: (i) modernization of infrastructure; and (ii) strengthening of the productive sector through agriculture and natural resource management, and SMEs.*** The pillar will fall within the ambit of a sustainable

development approach, to underscore the reinforcement of the productive fabric at the base and further stress environmental issues. The implementation of public utilities, transport and telecommunications projects was a key area of Bank focus. Such projects remain a Government priority, with precedence given to those with a strong impact on the creation and maintenance of jobs as a key measure in the current economic crisis. However, more emphasis should be given to information and communication technologies (ICT) during this second phase of the CSP. Concerning the second strategic objective (strengthening of the productive sector), activities related to agriculture and natural resource management will seek to address environmental concerns. The Bank should brainstorm on how to help finance SMEs outside the lines of credit used traditionally in Tunisia. The revitalization of the financial sector is likely to be among the strategic actions of future interventions, since it generally constitutes the long-term solution to improving the access of SMEs to financing.

5.2.5 The Pillar will be supported mainly by ongoing infrastructure projects or those approved recently. As part of transport modernization, there are also plans to finance a Road Project VI and provide assistance on road safety. Studies are also planned in the rail sub-sector, among which the Enfidha-Kairouan railway service, the North-South/Gabès-Mednine high-speed train, the electrification of the Borj Cedria-Gabès line, as well as possible financing of a railway project. In the electricity sector, the Board of Directors recently (September 2009) approved the Electricity Distribution Network Improvement and Restructuring Project. The Bank has also received a request to finance the Sousse combined cycle power plant. The request is being considered by the relevant Bank services. As part of the promotion of South-South cooperation, the Bank is considering a STEG Internationale development plan study (STEG Internationale is a STEG subsidiary with role to provide technical assistance services and advise abroad in the electricity field). Still in the energy field, the private sector window plans to finance a clean energy project. In the ICT domain, the Bank recently extended a grant to finance a study on the establishment of an ICT centre of excellence in Tunisia. This is a regional centre whose role is to promote ICT on the continent.

5.2.6 Regarding the strategic objective of reinforcing the productive sector, the Bank will intervene especially in agriculture and natural resource management, notably through ongoing projects - the Kairouan PDAI whose completion is expected in 2013 and PISEAU II which is about to start. Similarly, the emphasis on environmental issues will mostly engender water sector projects, among which the project to transfer treated waste water to semi-arid zones and the project to strengthen the water storage and processing capacity in the Sfax and Sahel region now on the drawing board. Furthermore, under the private sector window, there are plans to set up a sea water desalination project. A series of strategic activities are also envisaged in the sector, including the strengthening of the drinking water agricultural development groupings (MIC-TAF), the Tunis North flood control study (MIC-TAF), the sea water desalination study (FAPA), the study to increase the drinking water service rate in the Béja and Bizerte governorates, the strategic sanitation study on districts ("*communes*") with no waste water collection and treatment systems, as well as a GEO-AQUIFER regional project on sustainable trans-border management of ground water resources (AWF). With the increasing importance of water management not only for Tunisia but also the entire continent, these studies are strategic contributions by the country and the Bank. Lastly, following the withdrawal of private financing from the Hasdrubal Gas Project, the Bank plans to transform that project into a loan to ETAP ("*Entreprise Tunisienne d'Activités Pétrolières*" – Tunisian Oil Company).

5.2.7 As regards the financing of SMEs, a number of multinational projects financed by the Bank contribute indirectly to the development of the Tunisian financial sector, for instance the Bank's support to the AfricInvest II Fund or the Maghreb Private Equity Fund II (both funds are promoted by TunisInvest, which also finances SMEs in Tunisia). Lastly, the Bank takes part in diagnosing the microfinance sub-sector in Tunisia through a study on the microcredit system managed by *Banque Tunisienne de Solidarité*. The said study falls within the framework of discussions on sub-sector reforms initiated under the PAI Reforms Program and conducted jointly with the WB and the EU. The study will run simultaneously with the one on the microfinance market financed by the EU. These diagnoses aim at improving the effectiveness of the microfinance sub-sector operation in terms of providing better financing options for small enterprises.

5.2.8 ***Pillar 3 - Consolidation of the human capital*** – constitutes the base of the first two pillars. It serves as the dialogue framework particularly on employment issues affecting young graduates. The problem of employing the growing number of young graduates is a social issue, the solution of which requires the Bank's greater involvement. The ongoing PAES-II will also continue to contribute to this pillar. In the health sector, the health services export strategy study now at the inception stage will help to foster the national strategy in that regard, making the field one of the economic priorities in terms of service export. Tunisia's ambition is to become a world leader in that domain. The Bank is also expected to play a more active role in positioning Tunisia in that area both at the sub-regional and continental level. In addition, assistance on emerging and re-emerging diseases is also being initiated. This will enable the country to cope with the increase in new pathologies through the development of a consistent government policy accompanied by technical assistance. This support falls within the ambit of a strategic approach to Bank interventions in Tunisia's health sector. Specifically, a health sector reform programme geared towards rendering the national system more effective and rational is planned, notably to support the upgrading of the sector. Lastly, a study on the development of cultural industries is also on the drawing board. The cultural field contributes to both economic and social development and is considered as innovative and a possible area for future Bank intervention in Tunisia and other countries.

5.3 Country Dialogue

5.3.1 The presence of the Bank in Tunisia facilitates dialogue with the country, particularly on portfolio management which has shown a marked improvement since the relocation. However, one cannot but note that the quality of dialogue with the country on strategic issues needs further consolidation. For that reason, the Bank is refocusing its activities towards analytical work and providing expertise as reflected by a series of ESW currently identified and being initiated. (cf § 3.3 and § 4.1.3)

5.3.2 As mentioned above (cf § 4.1.2), the Bank could enhance the quality of dialogue by focusing more attention on Tunisia. As a regular borrower, Tunisia's portfolio has always been one of the most significant for the Bank Group. However, other countries with similar portfolios also have a Bank field office and enjoy the related service benefits. The dialogue quality could improve significantly if the Bank granted Tunisia the status and services that it deserves, given the volume of the portfolio as well as its position as the temporary host country.

5.4 Risks and Mitigative Measures

5.4.1 The key risk identified during the preparation of the CSP in 2007 was socio-political. Indeed, unlike the main objective of the XIth Plan to reduce unemployment, the international economic situation characterized by price hikes in 2008 and the economic crisis in 2009 have exacerbated problems of unemployment. Unemployment seems for the time being to be maintained at a relatively stable, but still high level (14.2%), while the persistence of the crisis might lead to increased unemployment. As youth unemployment in particular is among the country's social issues, the question of employment remains at the heart of governmental programs. The Bank is supporting Tunisia to stimulate growth and employment through the three CSP pillars.

5.4.2 Thus, the risk of exogenous shocks and the economic situation remain the key concern during the second phase of the CSP. The impact and persistence of the current crisis should scale down the initial growth and employment objectives of the XIth Plan. However, the Government is maintaining its broad objectives, accelerating and deepening its economic reforms in a bid to consolidate the country's status within the globalization context and improve its economic performance. After finalizing the industrial products free trade process with the European Union, Tunisia is also pursuing trade-opening negotiations for services and agriculture. Similarly, to reduce its heavy dependence on Europe and thus decrease the risks of exogenous shocks, the country is seeking to diversify its trading partners. Through the three pillars of the CSP, the Bank is providing assistance in supporting these structural changes to the economy and the Tunisian society. Even so, it should further strengthen its role in promoting regional integration and the diversification of trading partners, notably with sub-Saharan countries.

6. CONCLUSION AND RECOMMENDATION

6.1 Conclusion: During the first phase of the CSP, Tunisia faced major challenges, namely the price hikes up to mid-2008, then the global recession since the end of 2008. Despite these difficulties, the country was able to put up a relatively good economic performance, thanks to its solid fundamentals and its commitment to pursuing reforms, even if this performance has fallen short of the initial targets of the CSP and the XIth Plan of early 2007. The Government is pursuing efforts to achieve its employment and growth targets. The Bank's strategy aims at meeting the country's expectations during this crucial period. To help the country cope with its challenges, the Bank's strategy over the period 2009-2011 while remaining unchanged, will take lessons learned into account. It will continue to underscore the first two pillars: (i) strengthening of macro-economic policies and acceleration of reforms; and (ii) modernization of infrastructure and strengthening of the productive sector for sustainable development. Concerning the third pillar (iii) - consolidation of human capital - which underpins the first two pillars, the Bank will strive to enhance its interventions with a view to making strategic contributions to the country's priorities.

6.2 Recommendation: The Board of Directors is invited to approve the Bank Strategy in Tunisia for the remaining CSP period, 2009-2011. The Bank strategy remains overall unchanged and will be implemented through the "benchmark scenario" which provides for a financial package of sustainable loans of an indicative annual amount of UA 300 to 400 million. The volume of this package could vary according to the portfolio risk profile and the flexibility required for a middle-income country such as Tunisia.

CSP Results Indicators

Country's Long-term Objectives	CSP Objectives 2007-2011	Baseline Situation (2007)	Expected Mid-term Results (2009)	Mid-term Results Obtained (2009)	Expected Outcomes (2011)	Bank Operations
<i>Acceleration of growth</i>	<i>GDP growth</i>	6.3%	6.1%	3.0%	5.0%	CSP
<i>Creation of employment</i>	<i>Reduction of jobless rate</i>	14.1%	13.4% (original target 2011)	14.2% (2008)		CSP
Pillar 1 – Strengthening of macro-economic policies and acceleration of structural reforms						
1.1 Improvement of the business climate						
Consolidation of macro-economic fundamentals	Budget deficit	2.9% of GDP at end- 2006	< 3.5% of GDP	3.8% of GDP at end-2009 (estimated)	2.7% of GDP	PAC-III, PAI
	Current account deficit	2.6% of GDP	< 3.5% of GDP	3% of GDP at end-2009 (estimated)	2.9% of GDP	PAC-III, PAI
Revitalization of investment	Investment rate	23.4% of GDP	25% of GDP	26.8% of GDP at end- 2009 (estimated)	28% of GDP	PAC-III, PAI
Opening of the economy	Number of customs tariff rates	9	7	6	5 in 2010	PAI
1.2 Modernization of the financial sector						
Improvement of the banking sector	Reduction of non- performing loans and increase in provisioning	19.2% of NPP and 48.2% provisioning at end-2006	< 20% of NPP	15.5% of NPP and 56.8% of provisioning at end-2008	15% of NPP and 70% of provisioning	PAC-III, PAI
Revitalize the financial market	Increase stock market capitalization	13.5% of GDP at end- 2006	> 15% of GDP in 2009	15% of GDP in 2009	20% of GDP	PAC-III, PAI
Pillar 2 – Modernization of infrastructure and Reinforcement of the productive sector for sustainable development						
2.1. Infrastructure						
2.1.1 Modernization of Transport						

Country's Long-term Objectives	CSP Objectives 2007-2011	Baseline Situation (2007)	Expected Mid-term Results (2009)	Mid-term Results Obtained (2009)	Expected Outcomes (2011)	Bank Operations
Modernization of roads	Kilometres of modernized roads, bridges built	62% paved roads and 52% unclassified roads	1274 km 695 km and 7 bridges (Road Project V)	950 km commissioned 695 km and 7 bridges under construction (Road Project V)	1274 km and 1 bridge 1109 km + 14 bridges	Road Project IV Road Project V Road Project VI
Modernization of the railway network	Kilometres of renewed railway system with appropriate signalling		176 km	116 km	176 km	Railway Modernization -II
Increase of airport facilities	Improve intake capacity of the Monastir/Enfidha airports	Airport capacity of Monastir at 3.5 mppy		Enfidha Airport operational at end-2009	Increase of Monastir/Enfidha airport capacity to 8.5 mppy	Enfidha Airport Project
2.1.2 Improvement of energy distribution						
Improvement of energy efficiency	Energy Intensity	0.322 (tep/1000 TND)		0.304 (tep/1000 TND)	0.286 (tep/1000 TND)	Electricity Project VI Electricity Project VII
Improvement of electricity distribution service quality	Average turn-off time Medium voltage (for enterprises) and low voltage tension (for households)	170 mn MV (2005) 186 mn LV (2005)		118 mn MV (2008) 141 mn LV (2008)	100 mn MV (2011) 132 mn LV (2011)	Electricity Project VI Electricity Project VII

Country's Long-term Objectives	CSP Objectives 2007-2011	Baseline Situation (2007)	Expected Mid-term Results (2009)	Mid-term Results Obtained (2009)	Expected Outcomes (2011)	Bank Operations
	Reduction of non- distributed energy	11 GWh (2005)		6.318 GWh (2008)	6.20 GWh (2011)	Electricity Project VI Electricity Project VII
2.2 Strengthening of the productive base						
2.2.1 Agriculture and management of natural resources						
Development of irrigated areas	Increase of irrigated areas	400.000 ha of irrigated areas		405 000 ha	408 000 ha	PDAI Projects PISEAU II
Soil moisture conservation	Increase in acreage under soil moisture conservation	320 000 ha		358 000 ha	378 000 ha	PDAI Projects
Service tracks	Increase in number of km provided	1 250 km		1 344 km	1 464 km	PDAI Projects
Improvement of rural access to drinking water	Increase in drinking water service	88.5%	95%	96%	97%	PDAI Projects PISEAU II Studies in the water sector
Improved reuse of treated wastewater	Increase in percentage reuse of treated wastewater	15% in 2005		20%	35% in 2011 (60% in 2014)	Studies in the water and sanitation sector
Increase commercial gas	Oil production	2869 thousand		2816 thousand tonnes	3232 thousand tonnes (of which Hasdrubal	Hasdrubal Project

Country's Long-term Objectives	CSP Objectives 2007-2011	Baseline Situation (2007)	Expected Mid-term Results (2009)	Mid-term Results Obtained (2009)	Expected Outcomes (2011)	Bank Operations
and oil production	Gas production	tonnes in 2008 711 thousand tonnes in 2008		(of which Hasdrubal 117 thousand tonnes) 1169 thousand tonnes (of which Hasdrubal 174 thousand tonnes)	265 thousand tonnes 2201 thousand tonnes (of which Hasdrubal 1080 thousand tonnes)	(ETAP Project)
2.2.2 Financing of SMEs						
Finance the revitalization of SMEs	Growth of manufacturing industries and services sectors	4% manufacturing industries 8% Services	5% manufacturing industries 8% Services	-0.6% manufacturing industries (4.5% .n 2008) 5.5% Services (7.6% in 2008)		Lines of credit BTEI, BNA, BH Maghreb Private Equity Fund II AfricInvest II PAI
Pillar 3 – Consolidation of the human capital						
3.1 Training / employment						
Improve secondary education access and services	Enrolment rate of 12-18 age bracket	75.4%(2005)		76%	80%	PAES II
	Increased annual secondary school enrolment			37130	58.000	PAES II
3.2 Health						
Prevent risks against	Set up a national	n.a. (activity)	n.a. (activity)	Initiation of the	National	Assistance against

Country's Long-term Objectives	CSP Objectives 2007-2011	Baseline Situation (2007)	Expected Mid-term Results (2009)	Mid-term Results Obtained (2009)	Expected Outcomes (2011)	Bank Operations
emerging diseases	epidemiological surveillance mechanism	launched in 2009)	launched in 2009)	project	epidemiological surveillance Mechanism operational and efficient	emerging diseases(MIC-TAF)
Promote health services export	Develop national health services export strategy	n.a. (activity launched in 2009)	n.a. (activity launched in 2009)	Initiation of the activity	Study on national health services export Strategy operational and implemented	Study on health services export Strategy (MIC-TAF)

The indicators are based on national data, projects and staff estimates.

Economic and Financial Indicators

	2006	2007	2008	2009 (est.)	2010 (proj.)
Real economy					
GDP growth (%)	5.4	6.3	4.6	3.0	4.0
GDP growth excluding agriculture	5.6	6.7	5.3	2.7	4.7
Consumer price index (annual average, %)	4.5	3.1	5.0	3.5	3.3
Growth of consumption (%)	5.0	5.2	4.8	4.0	4.4
Growth of public consumption (%)	5.3	5.0	4.0	4.0	4.0
Growth of private consumption (%)	4.9	5.3	5.0	4.0	4.5
Growth of investment in real terms (GFCF) (%)	10.4	6.3	5.3	5.8	6.1
Investment rate (as% of GDP)	23.4	23.9	24.9	25.9	26.5
National savings rate (as % of RNDB)	22.5	23.1	23.4	23.0	23.3
External sector					
Exports growth in real terms G&S (%)	3.4	11.8	2.8	-6.5	4.4
Imports growth in real terms G&S (%)	6.8	9.6	5.6	-6.9	5.4
Trade balance (% of GDP)	10.7	11.0	13.1	12.2	12.6
Current balance (% of GDP)	2.0	2.6	4.2	3.1	3.0
Foreign debt (% of RNDB)	47.4	43.4	42.6	41.3	39.3
Debt service / Exports G&S (%)	18.6	13.2	8.7	11.3	11.1
Terms of trade (deterioration -)	-0.3	-1.4	0.9	-1.0	0.2
Official reserves (in months of goods imports)	5.0	4.6	5.0	6.0	5.0
Public Finance					
Total revenue, excluding grants and privatizations (% of GDP)	23.6	24.1	26.6	24.0	24.1
Total expenditure and Net loans (% of GDP)	26.5	27.1	27.7	27.8	27.7
Net budgetary position, excluding grants and privatization (% of GDP)	-2.8	-3.0	-1.1	-3.8	-3.6
National debt (% of GDP)	53.7	50.7	47.5	50.0	48.0
Money and credit (% variation)					
Credit to the economy	6.4	9.8	14.3	-	-
Money in broad sense (m3)	11.4	12.5	14.4	11.7	-
Velocity of circulation (GDP/M3)	1.56	1.53	1.47	1.39	-
Interest rate (money market)rate (1)	5.33	5.26	5.19	4.24	-
Memorandum items					
GDP at current prices (million TND)	41407.8	45628.7	50324.9	53419.1	57553.8
GNP per capita (in TND)	3881.4	4202.0	4579.1	4851.1	5201.9
RNDB per capita (in TND)	4100.4	4440.2	4848.5	5135.0	5504.0
Population (in thousands)	10126.3	10238.0	10314.5	10424.1	10534.3
Rate of unemployment	14.3	14.1	14.2	-	-

(1) At end of period. Except for 2009, in September

Source: Tunisian authorities, October 2009.

Original Programme 2007-2011 and Tentative Revised Programme 2009-2011

CSP Pillars 2007-2011	Original portfolio 2007	Activities initially proposed for 2007-2011	Ongoing activities 2009	Activities proposed for 2009-2011
Pillar 1: Strengthening of macro-economic policies and acceleration of structural reforms	PAC III	PAC IV Support to the improvement of public administration <i>Governance Profile</i>	PAI <i>PEFA</i> <i>Public Accounting Study (FAPA)</i> <i>(Regional) Institutional Support to AMU</i>	PAI II <i>Technical Assistance Modelling (MIC-TAF)</i> <i>Administrative Streamlining Study</i> <i>Study on Tunisian Exports to sub-Saharan Africa (MIC-TAF)</i>
Pillar 2: Modernization of infrastructure and Reinforcement of the productive sector for sustainable development	PDAI Kairouan PDAI Kasserine PDAI Gafsa PDAI Gabès Environmental capacity of the CGP	PDRI PDAI PISEAU PGRN (Management of natural resources)	PDAI Kairouan PISEAU II <i>Study desalination of sea water</i>	Project to transfer purified wastewater to semi-arid zones Project to develop water purification and storage capacity in the Sfax and Sahel region Desalination of sea water

CSP Pillars 2007-2011	Original portfolio 2007	Activities initially proposed for 2007-2011	Ongoing activities 2009	Activities proposed for 2009-2011
			<p>(FAPA)</p> <p><i>Study on Flooding in Tunis (MIC-TAF)</i></p>	<p><i>Strengthening of drinking water ADG(MIC-TAF)</i></p> <p><i>Increased drinking water supply in Governorates of Béja and Bizerte</i></p> <p><i>Strategic Study on sanitation of districts (“communes”) for wastewater collection and treatment</i></p> <p><i>Study on sanitation of 6 towns (MIC-TAF)</i></p> <p><i>(Regional) GEO-AQUIFER Assistance to OSS (sustainable trans-border management of ground water resources)</i></p> <p>Road Network VI</p>

CSP Pillars 2007-2011	Original portfolio 2007	Activities initially proposed for 2007-2011	Ongoing activities 2009	Activities proposed for 2009-2011
	Road network III & IV	Light railway system (LRS)		<i>Road safety</i>
	Railway modernization I & II		Road network IV & V	Railway Project <i>Feasibility Study Enfidha-Kairouan railway service</i> <i>North-South / Gabès-Mednine High-speed Train</i>
	Electricity distribution network VI		Railway modernization II	<i>Electrification of the Borj Cedria-Gabès line</i>
			Enfidha Airport	Power station at Sousse Clean Energy Project <i>(Regional) ICT Centre of excellence</i>
				(Regional) Maghreb Private Equity Fund II

CSP Pillars 2007-2011	Original portfolio 2007	Activities initially proposed for 2007-2011	Ongoing activities 2009	Activities proposed for 2009-2011
	Lines of credit (BTEI, BNA, BH)	Lines of credit (STB)	Wastewater & electricity distribution system VII Hasdruba Oil and Gas Project 1 (ETAP loan)	(Regional) AfricInvest II <i>Performance Evaluation of Banque Tunisienne de Solidarité</i>
Pillar 3: Consolidation of the human capital	PAES II <i>Sidi Thabet Technopole Study</i>	Support the establishment of technopoles <i>Feasibility Studies on technopoles</i> <i>Surveillance of emerging and re-emerging diseases</i>	PAES II	<i>Surveillance of emerging and re-emerging diseases (MIC-TAF)</i> <i>Health services export study (MIC-TAF)</i> Health Sector Reform Programme <i>Study on cultural industries</i>

In italics: Non-lending activities

Portfolio Situation (As at end- September 2009)

Portfolio status as at 25 September 2009									
25-Sep-2009									
Sector	Project title	Net Loan (UAm)	Amount Disbursed (UAm)	Disbursement rate*	Approval date	Signature date	Effectiveness date	Age**	Planned finish date
Agriculture	Kairouan Integrated Agricultural Development Project	14,7	6,5	43,9%	29-Mar-06	13-Sep-06	9-Mar-2007	2,5	31-Dec-13
Agriculture	Water sector investment Project (PISEAU II)	20,4	0,00	0,0%	11-Dec-08	18-May-09	Non effective	na	31-Dec-14
Total Agriculture		35,1	6,5	43,9%				2,5	
Transport	Enfida Airport Project (Private)	59,0	52,4	88,9%	14-Jan-09	12-Feb-09	13-Mar-2009	0,5	31-Mar-10
Transport	Road network IV	138,1	98,3	71,2%	24-Nov-04	22-Mar-06	20-Sep-2006	3,0	31-Dec-09
Transport	Road network V	149,9	25,8	17,2%	11-Jun-08	22-Oct-08	11-May-2009	0,4	31-Dec-13
Transport	Modernization of railway Infrastructure II	61,6	33,5	54,3%	3-Dec-03	4-May-04	13-Oct-2004	5,0	30-Jun-10
Total Transport		408,6	210,0	51,4%				2,2	
Power	Improvement of electricity distribution networks VI	64,1	50,9	79,3%	10-Dec-03	20-Sep-04	21-Feb-2005	4,6	31-Dec-09
Power	Improvement & Restructuring of electricity distribution networks VII	42,3	0,0	0,0%	2-Sep-09	Non signed	Non effective	na	30-Nov-12
Power	Hasdrubal oil/gas field development (Private)	94,8	0,0	0,0%	22-Oct-08	Non signed	Non effective	na	30-Jun-12
Total Power		201,3	50,9	79,3%				4,6	
Social	Secondary education support Project (PAES II)	49,4	26	52,0%	28-Sep-05	23-Nov-05	16-May-2006	3,4	31-Jan-12
Total Social		49,4	26	52,0%				3,4	
Reforms	Integration Support Programme (PAI)	165,1	82,6	50,0%	16-Apr-09	18-May-09	18-Aug-2009	0,1	31-Dec-11
Total		165,1	82,6	50,0%				0,1	
Grand Total (Public + Private)		859,5	375,6	55,3%				2,6	
Disbursement rate = on effective projects									
Age = from effectiveness									

(Data Source: SAP, ONGOING and approved projects, including those not signed and/or effective)

* The disbursement rate is calculated on effective projects

** The age is calculated as from the effectiveness date

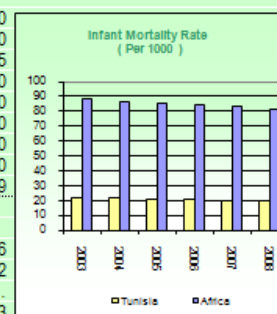
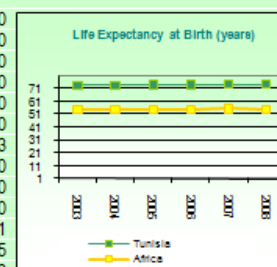
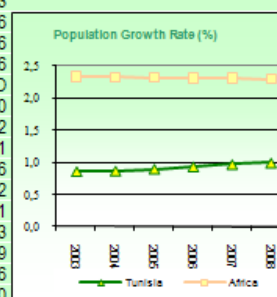
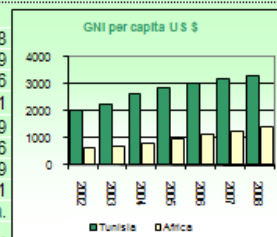
Disbursement rate on effective public sector loans = 52.6%

The portfolio comprises only one potentially problematic project, namely the Road System development Project of the Category IV, due to the delay in signing the loan agreement (15 months after approval). The project suffered from the change in financial conditions, which became more favourable after its approval, but whose retroactivity required by the Government was accepted by the Bank only after extensive discussions with the authorities, which have led to approval by non-objection to retroactivity by the Board.

Tunisia

COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Tunisia	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km ²)		164	30 323	80 976	54 658
Total Population (millions)	2008	10,2	986	5 523	1 229
Urban Population (% of Total)	2008	67,0	39,1	44,2	74,6
Population Density (per Km ²)	2008	63,8	32,6	66,6	23,1
GNI per Capita (US \$)	2008	3 290	1 428	2 405	38 579
Labor Force Participation - Total (%)	2008	36,7	42,3	45,6	54,6
Labor Force Participation - Female (%)	2008	27,0	41,1	39,7	44,9
Gender -Related Development Index Value	2005	0,750	0,482	0,694	0,911
Human Develop. Index (Rank among 174 countries)	2007	98	n.a.	n.a.	n.a.
Popul. Living Below \$ 1 a Day (% of Population)	2005	...	34,3	25,0	...
Demographic Indicators					
Population Growth Rate - Total (%)	2008	1,0	2,3	1,4	0,3
Population Growth Rate - Urban (%)	2008	1,6	3,3	2,5	0,6
Population < 15 years (%)	2008	23,7	56,0	40,0	16,6
Population >= 65 years (%)	2008	6,7	4,5	3,3	15,6
Dependency Ratio (%)	2008	44,5	78,0	52,8	49,0
Sex Ratio (per 100 female)	2008	101,2	100,7	96,7	106,0
Female Population 15-49 years (% of total populati	2008	28,8	48,5	53,3	47,2
Life Expectancy at Birth - Total (years)	2008	74,0	54,5	65,7	77,1
Life Expectancy at Birth - Female (years)	2008	76,2	55,5	67,6	80,6
Crude Birth Rate (per 1,000)	2008	16,1	35,8	22,2	11,2
Crude Death Rate (per 1,000)	2008	5,9	12,4	8,1	10,1
Infant Mortality Rate (per 1,000)	2008	19,5	83,9	51,4	6,3
Child Mortality Rate (per 1,000)	2008	21,9	134,5	77,4	7,9
Total Fertility Rate (per woman)	2008	1,8	4,6	2,7	1,6
Maternal Mortality Rate (per 100,000)	2007	41,0	683,0	450,0	9,0
Women Using Contraception (%)	2006	60,2	29,7	61,0	75,0
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2006	99,7	39,6	78,0	287,0
Nurses (per 100,000 people)*	2006	301,6	120,4	98,0	782,0
Births attended by Trained Health Personnel (%)	2006	89,7	51,2	59,0	99,0
Access to Safe Water (% of Population)	2006	94,0	68,0	62,0	100,0
Access to Health Services (% of Population)	2005	...	61,7	80,0	100,0
Access to Sanitation (% of Population)	2006	85,0	37,6	53,0	100,0
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2005	0,1	4,5	1,3	0,3
Incidence of Tuberculosis (per 100,000)	2005	0,1	315,8	275,0	19,0
Child Immunization Against Tuberculosis (%)	2007	99,0	83,0	89,0	99,0
Child Immunization Against Measles (%)	2007	98,0	83,1	81,0	93,0
Underweight Children (% of children under 5 years)	2003	1,0	25,2	27,0	0,1
Daily Calorie Supply per Capita	2004	3 344	2 436	2 675	3 285
Public Expenditure on Health (as % of GDP)	2006	1,7	2,4	1,8	6,3
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2007	97,1	99,6	106,0	101,0
Primary School - Female	2007	103,2	92,1	103,0	101,0
Secondary School - Total	2007	39,3	43,5	60,0	101,5
Secondary School - Female	2007	27,2	40,8	58,0	101,0
Primary School Female Teaching Staff (% of Total)	2007	53,1	47,5	51,0	82,0
Adult Illiteracy Rate - Total (%)	2007	22,3	38,0	21,0	1,0
Adult Illiteracy Rate - Male (%)	2007	13,6	29,0	15,0	1,0
Adult Illiteracy Rate - Female (%)	2007	31,0	47,0	27,0	1,0
Percentage of GDP Spent on Education	2007	3,7	4,5	3,9	5,9
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2007	17,7	6,0	9,9	11,6
Annual Rate of Deforestation (%)	2005	...	0,7	0,4	-0,2
Annual Rate of Reforestation (%)	2005	...	10,9
Per Capita CO2 Emissions (metric tons)	2007	2,0	1,0	1,9	12,3



Sources : ADB Statistics Department Databases; World Bank: World Development Indicators; last update : octobre 2009

UNAIDS; UNSD; WHO; UNICEF; WRI; UNDP; Country Reports.

Note : n.a. : Not Applicable ; ... : Data Not Available.