

# Tunisia

## Interim Country Strategy Paper 2012 - 2013



Banque africaine de développement  
African Development Bank

# Tunisia

---

## Interim Country Strategy Paper 2012 - 2013



Banque africaine de développement  
African Development Bank

This strategy interim was prepared between July and November 2011 by a team led by Vincent Castel (Principal Program Coordinator, ORNA) and under the supervision of Jacob Kolster (Director, ORNA). The interim strategy was approved by the Board of the African Development Bank Group on February 15, 2012.

## Country Strategy Paper Drafting Team

### Design Team:

V. Castel, Principal Coordinator, ORNA-TNFO  
G. Nancy, Consultant, ORNA

### Team Members - ORNA:

P. Mejja, Consultant, ORNA  
Y. Ahmad, Principal Programme Officer, ORNA  
N. Obayashi, Principal Country Economist, ORNA  
H.S. Hajsalem, Operations Assistant, ORNA  
A. Charaf-Eddine, Principal Programme Officer, ORNA  
H. Tall, Governance Expert, ORNA  
E. Santi, Senior Country Economist, ORNA

### Team Members - Sector Departments:

J. Murara, Principal Socio-economist, OSHD1  
N. Kalumiya, YP, OSHD.1  
R. Sarr Samb, Senior Architect, OSHD.2  
S. Ilboudo, Senior Education Analyst, OSHD.2  
F. Sergent, Principal Health Analyst, OSHD.3  
M. Ba, Chief Agronomist, OSAN.1  
M. Kane, Rural Infrastructure Engineer, OSAN.1  
Y. Labbene, Consultant, OSAN.4  
I. A. Traore, Consultant, OWAS.2  
B. Bensassi, Principal Water and Sanitation Officer, OWAS.2  
H. Kamoun, Consultant, OWAS.2  
F. Bougaire, Principal Water and Sanitation Engineer, AWF  
A. H. Kouassi, Chief Macro-economist, OSGE.2  
C. Lim, Private Sector Development Specialist, OSGE.2

K. Lumbila, Senior Economist, OSGE.2  
C. Ambert, Senior Strategy Officer, OPSM.0  
T. Teinilä, Chief Investment Expert, OPSM.1  
A. Benbarka, Principal Investment Expert, OPSM.2  
H. Chahbani, Principal Infrastructure Expert, ONRI.1  
C. Lozano, Principal Trade Expert, ONRI.2  
P. Djaigbe, Senior Financial Analyst, ONEC.1  
J. Cunha, Socio-economist, ONEC.3  
P. More Ndong, Senior Transport Engineer, OITC.2  
M. Ben Aissa, Consultant, ESTA  
A. Chouchane, Principal Research Economist, EDRE.2  
N. D. Yameogo, Senior Research Economist, EDRE.2  
Y. Abdoulaye, Investment Officer, FTRY.3  
W. Dakpo, Regional Procurement Coordinator, ORPF.1  
L. Dade, Regional Financial Management Coordinator, ORPF.2  
V. Fagbohoun, Senior Legal Counsel, GECL.2

### Regional Director:

J. Kolster, Director, ORNA

### Peer Reviewers:

S. Hachem, Principal Result Specialist, ORQR  
D. Alassane, Principal Country Economist, ORNB  
Y. Arvanitis, Research Economist - ADOA, EDRE.1  
S. Larbi, Investment Expert, OPSM.3  
K. Abderrahim, Consultant, ORNA  
M. Souissi, Consultant, ORNA

# Table of Contents

## 9 I Introduction

## 11 II Country Context and Prospects

### 2.1 Political, Economic and Social Context

- A. Political Situation
- B. Economic Context
- C. Social Situation
- D. Environment and Climate Change

### 2.2 Strategic Options

- A. Country Strategic Framework
- B. Transitional Government's Agenda
- C. Challenges and Weaknesses
- D. Strengths and Opportunities

### 2.3 Aid Coordination/Harmonization and AfDB Positioning in the Country

## 30 III Bank Group Strategy

### 3.1 Rationale for Bank Group's Intervention

### 3.2 Specific Objectives, Actions, Expected Outcomes and Targets

### 3.3 Country Dialogue Issues

### 3.4 Risks and Mitigative Policies

## 38 IV Conclusions

### 4.1 Conclusions

## List of Annexes

1. Strategic Intervention Framework
2. Logical Framework - Flexible and Subject to Revision Depending on the Political, Economic and Social Trends, and the Financial Resources that the AfDB Can Make Available to Tunisia
3. Projected Loan Programme
4. Activities Identified During the CSP Likely be Considered for AfDB Financing
5. Combined CSP 2007-2011 Completion and Portfolio Performance Review Report
6. Tunisia's Portfolio (UA) (September 2011)
7. Economic and Sector Work Conducted and/or Being Conducted by ORNA (September 2011)
8. Public Finance and Procurement Management Systems: Bank's Risks and Fiduciary Strategy
9. Key Macroeconomic Indicators
10. Key Comparative Socio-Economic Indicators
11. Tunisia: Tables and Graphs for CSP Preparation
12. Civil Society Involvement in the AfDB Strategy Preparation: Approach and Lessons

## List of Figures

1. Election Results Before and After the Revolution
2. Contribution to the Growth of Key Sectors of the Tunisian Economy 2000-2009
3. Sector Distribution of FDI (2000-2007)
4. GDP by Sector (2010)
5. Contribution of Demand to GDP Growth
6. 2010 Governance Index: Tunisia's Score Compared to 53 African Countries
7. Business Climate: Comparative Ranking with 183 Countries
8. Competitiveness of Production Factors
9. Global Competitiveness According to the GCI
10. Regional Integration
11. Trend of Unemployment Rate Among University Graduates
12. Trend of Unemployment by Gender

13. Tunisia's Comparative Ranking Relating to ICT Development
14. Infrastructure Level
15. Tunisia's 2009 "Freedom House" Ranking
16. Banking Sector
17. Regional Poverty Rates and Social Indicators in 2005
18. Regional Unemployment Distribution in 2008 and Percentage of Businesses Established
19. Tunisia's Openness Rate (2009)
20. Portfolio Allocation by Sector

## List of Tables

1. Volume of Trade Between Tunisia and Libya (2009)
2. Regional Poverty Rate Disparities (in Percentage of the Population)
3. Tunisian Government Strategy
4. Tunisia Infrastructure Quality 2009-2010
5. Urban and Rural Poverty Trends in 1985-2005
6. Tunisia, Scores - CPIA
7. Tunisia's Ranking Relating to ICT Development
8. Portfolio of On-going Projects Funded by Various Donors (USD Million) Mid-October 2011

## Currency Equivalents - october 2011

CURRENCY UNIT = DINAR (TND)

1 UA = TND 2.23

1 UA = USD 1.56

1 UA = EUR 1.16

**FISCAL YEAR**

1 JANUARY – 31 DECEMBER

## Acronyms and Abbreviations

<b>AfDB</b>	African Development Bank
<b>AFD</b>	French Development Agency
<b>AMU</b>	Arab Maghreb Union
<b>AWF</b>	African Water Facility
<b>BCT</b>	Central Bank of Tunisia
<b>BH</b>	Banque de l'Habitat
<b>BNA</b>	Banque Nationale Agricole
<b>BTEI</b>	Banque de Tunisie et des Emirats d'Investissement
<b>BTS</b>	Tunisian Solidarity Bank
<b>CODE</b>	Committee on Operations and Development Effectiveness
<b>CPI</b>	Consumer Price Index
<b>CSP</b>	Country Strategy Paper
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>ENDA</b>	Environment and Development Action
<b>ESW</b>	Economic and Sector Work
<b>ETAP</b>	Entreprise Tunisienne d'Activités Pétrolières
<b>EU</b>	European Union
<b>EUD</b>	European Union Delegation
<b>EUR</b>	Euro
<b>FAPA</b>	Fund for African Private Sector Assistance
<b>FDI</b>	Foreign Direct Investments
<b>GDA</b>	Agricultural Development Groups
<b>GDP</b>	Gross Domestic Product
<b>HDI</b>	Human Development Index
<b>HST</b>	High-Speed Train
<b>ICT</b>	Information and Communication Technologies
<b>IFI</b>	International Financial Institutions
<b>KTOE</b>	Kiloton Oil Equivalent



<b>MDCI</b>	Ministry of Development and International Cooperation
<b>MDGs</b>	Millennium Development Goals
<b>MEI</b>	Mechanical and Electronic Industries
<b>MENA</b>	Middle East and North Africa
<b>MFA</b>	Multi-Fibre Arrangement
<b>MIC</b>	Middle-Income Country
<b>MIC-TAF</b>	Middle Income Countries Technical Assistance Fund
<b>MTEF</b>	Medium-Term Expenditure Framework
<b>NIS</b>	National Institute of Statistics
<b>NPL</b>	Non-Performing Loans
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>OSS</b>	Sahara and Sahel Observatory
<b>PA2I</b>	Integration and Innovation Support Programme
<b>PAC</b>	Competitiveness Support Programme
<b>PAES</b>	Secondary Education Support Project
<b>PAI</b>	Integration Support Programme
<b>PAIST</b>	Social Integration and Transition Support Programme
<b>PDAI</b>	Integrated Agricultural Development Programme
<b>PDR1</b>	Integrated Rural Development Programme
<b>PEFA</b>	Public Expenditure and Financial Accountability
<b>PISEAU</b>	Water Sector Investment Project
<b>RSP</b>	Recovery Support Programme
<b>SME</b>	Small- and Medium-Sized Businesses
<b>STB</b>	Société Tunisienne de Banque
<b>STEG</b>	Société Tunisienne d'Electricité et de Gaz (Tunisian Electricity and Gas Utility)
<b>TFP</b>	Total Factor Productivity
<b>TND</b>	Tunisian dinar
<b>TND B</b>	Billion Tunisian dinars
<b>TND M</b>	Million Tunisian Dinars
<b>UA</b>	Bank Group Unit of Account
<b>USD</b>	United States Dollar
<b>WB</b>	World Bank

# I. Introduction

*1.1 Tunisia has for long been considered as one of AfDB's most important partners.*

The country is one of the Bank's founding members and second highest historic beneficiary. The Bank's portfolio in Tunisia - the second largest - currently includes 21 active projects and programmes (of which 6 non-sovereign fully disbursed projects), 14 technical assistance grants and an emergency assistance grant totalling UA 1,574.10 million. The public portfolio that is being rejuvenated (3.45 years on average) remains among the best in middle-income countries with a score of 2.7/3.

*1.2 The last Country Strategy Paper (CSP) for Tunisia, in line with the Tunisian Government's Eleventh Development Plan and covering the 2007-2011 period, was approved by the Bank's Board of Directors in March 2007.* The CSP supported the main objectives of the Eleventh Plan, namely growth and job creation, and was based on three pillars: (i) Strengthening of Macroeconomic Policies and Acceleration of Reforms; (ii) Modernization of Infrastructure and Strengthening of the Productive Sector; and (iii) Consolidation of Human Capital.

*1.3 The 14 January 2011 Revolution profoundly and permanently changed the context and content of development partner operations.* It does not call into question the need for a sustainable growth model within the analytical framework currently based on former five-year plans. However, it highlighted issues related to employment, particularly for the youth, governance, regional disparities and poverty. Accordingly, the priorities set forth in the Eleventh Plan and the Draft Twelfth Plan (2012-2013) had to be reordered, albeit without losing sight of the fundamental growth drivers: macroeconomic stability, infrastructure investment and human capital formation. In this respect, the Twelfth Plan already departed from the previous one since it focuses on research, innovation and services development.

*1.4 Within a context marked by numerous uncertainties, there is need to design a new Bank intervention strategy* to ensure that actions focus on issues raised by the 2011 political and social upheavals. Following the Concept Note preparation process, the Bank adopted a strategy based on new thrusts defined by the Tunisian authorities in the

Letter of Development Policy released in May 2011 and the 2012 - 2016 Development Plan presented in September 2011. In the face of several uncertainties, this is a two-year interim strategy. It is therefore flexible, subject to review on the basis of political, economic and social developments. It also fits into Tunisia's development process and explicitly incorporates the social aspirations of Tunisians. This strategy builds on two pillars: (i) Growth and Economic Transition; and (ii) Inclusion and Reduction of Regional Disparities. The strategy is in line with the inclusive growth approach discussed by the Bank's Board in June 2011.

**1.5 *The Interim CSP (2012-2013) was prepared with a broad consultation process*** involving the Tunisian authorities, civil society members (Annex 12), private sector stakeholders and development partners. Its preparation is based on: (i) data and information gathered during consultative missions in July, September and October 2011; (ii) studies conducted by the Bank; and (iii) several available documents on Tunisia. Development partners and civil society members were also peer reviewers during the formulation of the strategy (this is a novelty in the Bank's approach).

## II. Country Context and Prospects

### 2.1 Political, Economic and Social Context

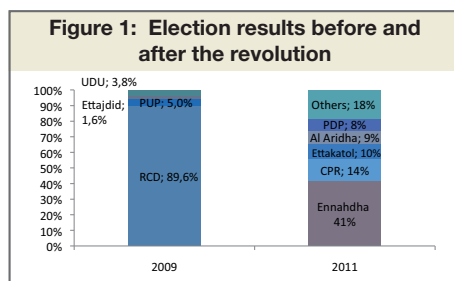
#### A. Political Situation

2.1.1 *Before the 14 January 2011 Revolution, the President and the President's Party (RCD) had a grip on almost all political life.*

2.1.2 *Following the Revolution and after several cabinet reshuffles, a transitional government was set up to prepare free Constituent Assembly elections under the watchful eye of an independent committee and international observers.* Initially scheduled for 24 July 2011, the elections were postponed to 23 October 2011 owing to technical impediments to the organization of free and fair polls. Since the Revolution, all hitherto banned political parties and associations could now be legalized. This led to the creation of more than 90 parties and over 1,000 associations.

2.1.3 *Three independent and neutral commissions were set up to prepare political reforms, examine abuse of power and corruption cases as well as establish cases of infringement of the law.* The Higher

Authority for the Achievement of the Goals of the Revolution, Political Reforms and Democratic Transition adopted the proportional representation voting system.



Source: For 2011 results are expressed in seats

2.1.4 *The Constituent Assembly elections of 23 October 2011 were conducted in accordance with the electoral process in place. The Islamic Party Ennahdha obtained 89 seats. CPR in the centre left, obtained 29 seats and Ettakatol, Social Democratic Party obtained 20 seats in the Constituent Assembly, which will have 217 seats.* The Constituent Assembly and the new government will run a second transition period for up to one year until the new constitution is adopted to replace that of 1959. At the end of the second transition period, a stable, parliamentary or presidential system is expected to produce a government capable of conducting sustainable policy.

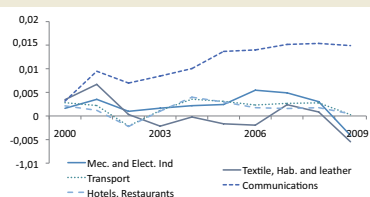
## B. Economic Context

### ► Growth Factors

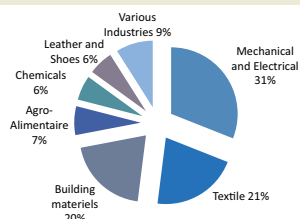
Tunisia's economic development during the last two decades has been characterized by:

- A growth rate trend of between 4.5-5%;
- A shift in the sectoral contribution of growth towards services and, to a lesser extent, industry. In 2010, the services sector accounted for 45.5% of GDP against 37.5% in 1989. However, it should be noted that several services produce low value added.
- Lower growth volatility due to better macro-economic management and control of inflation and financial balances. Between 2005 and 2010, the debt-to-GDP ratio dropped from 58.9% to 47.7%. The econometric estimation of debt-to-GDP equation shows that the debt is sustainable.
- Trade liberalization, which has failed to generate trade surpluses as a result of too low value added exports.
- Foreign direct investments, excluding privatization and energy, which fell short of expectations. Apart from two exceptional years (2006 and 2008) where FDI amounted respectively to USD 3.3 billion and USD 2.8 billion owing to the privatization of Tunisie Télécom, the average annual flow remained below USD 1.6 billion. FDI related transfers abroad have siphoned off a significant portion of foreign investment benefits, but there is considerable potential provided they are reinvested in the economy. Besides, local private investments remain low.
- Unemployment remained above 14% despite a significant drop since 1990.
- Productivity gains during the 2000 decade were more than offset by negative impacts (MFA dismantling and economic and financial crisis (2008-2009)) on the terms of trade and increased openness that rendered the Tunisian economy very vulnerable to global economic fluctuations.

**Figure 2: Contribution to the Growth of Key Sectors of the Tunisian Economy 2000-2009**



**Figure 3: Sector Distribution of FDI 2000-2007**



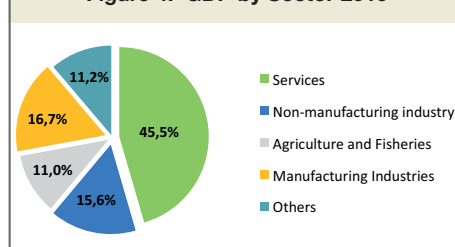
## ► Macroeconomic Policies

### Before the Revolution

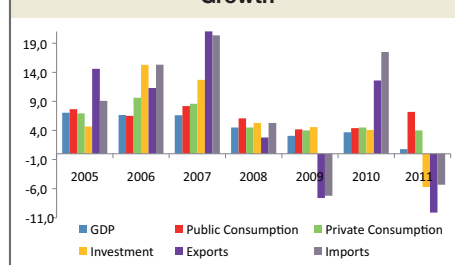
2.1.6 *The 2000 decade was characterized by a Tunisian economy in transition, faced with several challenges.* During the 2000 decade, Tunisia embarked on a far-reaching reform programme included in the Ninth (1997-2001), Tenth (2002-2006) and particularly the Eleventh (2007-2011) Plans. Between 1997 and 2001, emphasis was laid on: (i) consolidating economic flexibility and strengthening the private sector; (ii) adjusting sectors to global openness by striving to improve competitiveness; (iii) developing infrastructure; (iii) strengthening social cohesion and reducing regional disparities. Between 2002 and 2006, priority was given to: (a) growth; (b) employment; (c) development of exports; and (d) maintenance of financial balances. Lastly, the Eleventh Plan set as target to raise the growth rate from 4.8% to 6.1% and to reduce the unemployment rate from 14.2% to 13.4% in 2011. The pre-revolution period was marked by many shocks (11 September 2001, many droughts, the dismantling of the MFA, the 2008 financial crisis), which called into question the projections and programmes of the Tenth and Eleventh Plans. Although macro-economic balances were never undermined due to prudent policies, objectives in terms of employment, income distribution and regional development were not attained.

2.1.7 *After the 2009 financial crisis, early signs of economic recovery appeared in 2010, with an estimated GDP growth of 3.0%.* Inflation measured by the GDP deflator was 4.4% in 2010. The current account deficit rose from 2.8% in 2009 to 4.8% in 2010, driven by a 30% trade deficit stemming from export sector recovery, resulting in a more rapid increase in imports (+17%) than in exports (+14%) in 2010. Owing to recession in Europe, tourism revenue and foreign direct investment dropped (respectively by -5% and -2.3% in 2010). The budget deficit was contained below 3% due notably to improved tax collection, which allowed for the implementation of a countercyclical policy without worsening the budget deficit.

**Figure 4: GDP by Sector 2010**



**Figure 5: Contribution of Demand to GDP Growth**



## After the Revolution

**2.1.8 The 14 January 2011 Revolution brings hope (particularly for medium- and long-term growth that should build on the effects of improved governance), but its short-term macro-economic consequences are serious.** Besides damage to property (estimated at 4% of GDP), the Tunisian economy, at the domestic level, has had to grapple with growing insecurity, social tensions and, over a year, dwindling tourism revenue (-46%) and declining foreign investment (-17.8%). The capacity of the external financial system to support funding for projects and Tunisian companies was undermined by the increase in country risk. Furthermore, commodity price hikes and the Libyan crisis, whose impact on foreign trade is estimated at 6% of Tunisian exports (in addition to the decline in remittances and declining FDI from Libya), are additional handicaps.

**2.1.9 However, within this crisis context, macro-economic indicators have remained relatively resilient.** Although latest projections indicate near zero GDP growth in 2011, financial, budgetary and external imbalances are likely to persist, at least in the short term. With the resumption in European demand and reduced domestic demand, the trade balance improved over the first eight months of 2011 compared to the same period a year earlier. Tunisian foreign trade recorded a rise of 9.3% in exports and 4% in imports compared to the same

period in 2010. The coverage rate rose to 77.3% against 73.6% the previous year. This trend stems from an increase of 5.5% and 9.5% in export and import prices, respectively. Accordingly, the 2011 current account deficit is estimated to have slightly worsened (USD 2,429.6 million) compared to 2010 (USD 2,146.2 million), notwithstanding the drop in tourism activities. At year end, the current account deficit is expected to reach 5.1% of GDP. The debt / GDP ratio reached 43.2% in late 2011 against 40.5% the previous year (provisional finance law 2012). On the basis of fixed rates of around 4%, assumed by the donors and an inflation of about 3.5%, real interest rates are close to 0.5%. On the assumption that growth exceeds 0.5% (which should be the case starting 2012), the sustainability of the primary deficits should not be called into question.

**2.1.10 Declines in industrial production (-6.8%) and domestic demand resulted in a negative GDP growth in the first quarter of 2011 (-3.3%) and -0.5% in the second quarter.** In contrast, the budget deficit in 2011 due to delays in implementing investment programmes is estimated at 4.4% of GDP.

**Table 1: Volume of Trade between Tunisia and Libya (2009)**

Import		Export		Total Trade	
Value *	Share (%)**	Value *	Share (%)**	Value *	Share (%)**
560.6	3.9	831.8	6.9	1392.4	5.2

Source: \* In USD Mil. \*\*share in imports/export/trade

**2.1.11** *However, the Tunisian authorities have striven to be proactive in dealing with the crisis.* While inflation remains moderate (3.3%), monetary policy seeks to support the banking sector which remains very fragile, in particular public banks on which the old regime relied to sustain loan portfolios in sectors like tourism and transport. From the social standpoint, Tunisian authorities, in June 2011, also adopted a supplementary Finance Act which provides for an 11% increase in public spending to promote employment and support disadvantaged regions. This Act has maintained commodity subsidies totalling TND 1.3 billion despite an increase in the prices of raw materials, cereals, oil and gas.

**2.1.12** *Harsh economic shocks and delays in implementing the recovery plan do not augur well for economic recovery in 2011.*

The 2011 financing need was estimated at between TND 2.5 and 3 billion. The financing gap, after donor contributions, would be TND 650 million. Within this financial framework, depreciation of the dinar against the Euro is limited. The symbolic threshold of two dinars per Euro has not been crossed. However, foreign exchange reserves dropped from TND 13.1 billion on 13 September 2010 to TND 11.5 billion a year later. Economic recovery in 2012 will depend on normalization of the post-October political context, effects of the recovery plan implemented in the spring of

2011, its pace of implementation and resolution of the European crisis.

### ► Governance

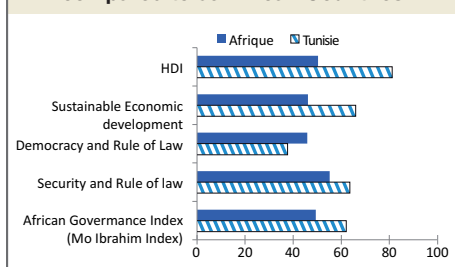
**2.1.13** *Transparency in public decisions, sound competition rules, efficient government and unhindered access to information by the public are essential prerequisites for enshrining democracy* and improved resource utilization. According to recent international rankings, Tunisia features among the best governed countries even though the Revolution highlighted strong grievances in all areas of governance.

**2.1.14** *According to the recent assessment of Tunisia's public finances based on the PEFA methodology (June 2010), Tunisia's public finance management system is on track to achieve sound fiscal discipline, strategic resource allocation and service provision to citizens.* The strengths include rigorous annual budget preparation and enforcement, the quality of controls and internal audits, and an accounting system that, although admittedly non-legacy, is reliable. There are still some priority areas of intervention: the need to strengthen external auditing; the need to improve the overall budgetary system efficiency and, lastly, the need to review the regulation of public procurement towards improved effectiveness, transparency and recourse systems.



2.1.15 *Based on governance indicators, Tunisia in 2010 was Africa's most advanced country in terms of HDI and sustainable economic development.* In contrast, with regard to the rule of law, democracy and human rights, in 2010, Tunisia's record was slightly below the average for African countries.

**Figure 6: Governance Index: Tunisia's Score compared to 53 African Countries**



Source: Mo Ibrahim Foundation

### ► Business Climate

2.1.16 *For several years now, Tunisia has undertaken a business climate reform process* (simplification of business start-up, one-stop shop for formalities, scrapping of the minimum capital requirement, significant reduction of administrative authorizations - all provided for in the New Law on Economic Initiative). These efforts helped to move Tunisia to the 55th position out of 183 countries in the 2011 Doing Business ranking, up three places from the previous year.

2.1.17 *Despite these reforms, Tunisian firms perceive certain aspects of the business environment as being some of the*

*major constraints they face. These constraints include:* (i) the effectiveness of government services dedicated to businesses; (ii) business development and operation procedures; (iii) timeframes for availability of industrial land; business information system; (iv) labour market operation; (v) operation of the Competitiveness Council; and (vi) low global integration of the onshore economy and related constraints.

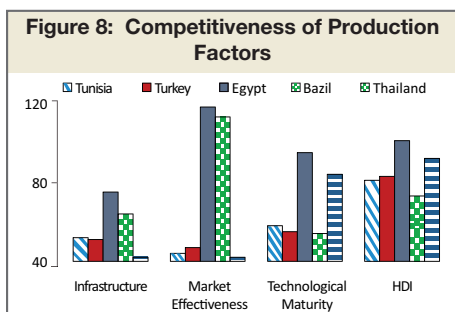
**Figure 7: Business Climate: Comparative Ranking with 183 Countries**



Source: IFC World Bank 2010

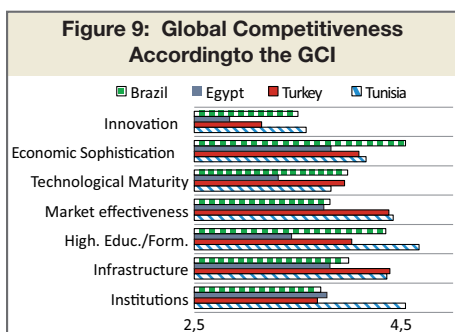
### ► Competitiveness

2.1.18 *The annual total factor productivity growth rate of the Tunisian economy rose from 1.24% in 1991-2000 to 1.4% in 2001 - 2006* During the 2000 decade, productivity gains in trade were more than offset by negative shocks on terms of trade (caused by the dismantling of MFA in 2005 and the economic and financial crisis in 2008 - 2009). However, the real effective exchange rate balance reveals only a slight 3% overestimation which, according to the IMF, indicates that the real effective exchange rate remains broadly in line with the basics.



Source: World Development Indicators, World Bank 2010, UNDP 2009, World Economic Forum on Africa 2010

2.1.19 Regarding the competitiveness of production factors, Tunisia ranks better than the leading countries of the emerging countries group: Brazil, Thailand and Turkey. In the region, however, Egypt is better ranked.



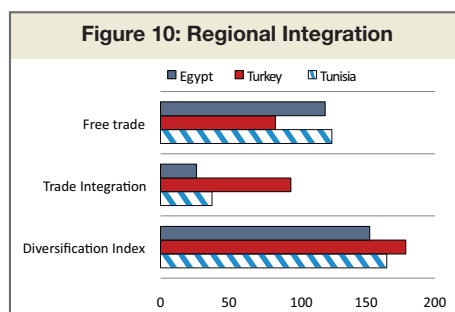
Source: World Economic Forum 2011-2012

2.1.20 Concerning global competitiveness (GCI), Tunisia is ranked at the same level as, or better than, the leading countries of the emerging countries group such as Brazil and Turkey, in particular thanks to health, education, institutions and macroeconomic policy.

## ► Foreign Trade and Regional Integration

### 2.1.21 The establishment of an Association

Agreement with the European Union has enabled Tunisia to take great strides in the liberalization and integration of its economy. In 2010, 75% of Tunisia's export and import transactions were with the EU. There is a potential for development by diversifying and deepening trade with the EU and other regional partners in particular. Meanwhile, in the Eleventh Plan, Tunisia undertook a gradual reduction of customs tariffs to an average 15% with other partners. This should help to close the gap with the average rates in the MENA region (12%) and countries with comparable income levels (11.8%).



2.1.22 Even though Europe is Tunisia's largest trading partner, integration with the sub-region and sub-Saharan Africa would be a significant source of potential growth and needs to be further explored.

## C. Social Situation

### ► Post-Revolution Social Tensions

2.1.23 The social situation is marked by mounting tensions leading to wage demands,

*demonstrations by job seekers and strikes* that undermine the smooth functioning of public services as well as private enterprises. During the first six months of 2011, according to the Labour Inspectorate, the number of strikes rose by 130% compared to the same period in 2010 and the number of business affected by strikes increased by 92%. However, the number of strikes fell by 13% between May and June 2011.

2.1.24 *In this context, the Transitional Government designed a coherent development strategy that largely responds to social expectations.*

#### ► Poverty and Income Inequalities

2.1.25 *Although Tunisia has experienced significant poverty reduction and improving social indicators, considerable socio-economic disparities persist.* The problem of regional disparities was at the core of social unrest in the cities of Sidi Bouzid, Kasserine and Thala in the central region of the country. As a whole, the East Coast is better off than regions in the West and South. Population and economic activity are mainly concentrated in the North-East (Tunis Governorate) and Centre-East (Sfax Governorate), given that 75% of off-farm jobs are found in the coastal area. As a result, there is a significant variation in average consumption and poverty from one region to

another. In 2000, whereas the poverty index (national average) stood at 18.4%, it actually varied from 6.9% in the Tunis district to 30.8% in the Mid-West. Similarly, unemployment is particularly acute in the hinterland. On average, since 2004, the unemployment rate is above 22.6% in the Jendouba, Le Kef, Kasserine and Gafsa regions.

**Table 2: Regional Poverty Rate Disparities (in % of population)**

Region	1980	1990	2005
Greater Tunis	6.3	4.2	1.4
North-East	11.5	4.5	2.7
North-West	17.6	10.2	3.1
Mid-West	19.7	13.3	12.8
Mid-East	12.9	4.4	1.2
South	10.6	8.1	S-E: 3.8 S-W: 5.5
Total	12.9	6.7	3.8

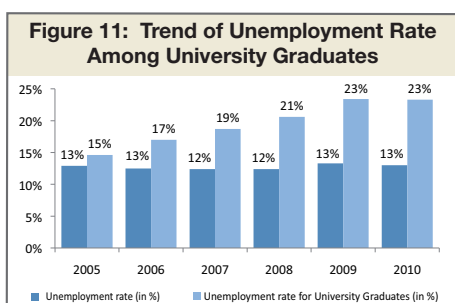
Source: NIS

2.1.26 *The poorest regions were neglected by the authorities, with coastal areas receiving 65% of public investment over the last decade.* Consequently, the Mid-West is the poorest region in terms of public services (health and education), as reflected in the number of inhabitants per paediatrician and youth illiteracy rate. To secure social peace, the next major challenge for Tunisia's Government will be to reduce regional inequalities.

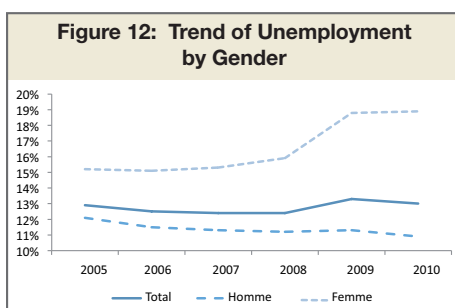
#### ► Unemployment, Education and Gender

2.1.27 *Unemployment (especially among young graduates, which stood at 23% in 2010,*

up from 15% in 2005) featured prominently among the social and political problems revealed by the Revolution. This structural unemployment is partly attributable to a mismatch between higher education training and private sector needs, and the very quality of training that does not provide graduates with the required skills to enter the business world.



Source: NIS



Source: NIS

**2.1.28 Tunisia is the most advanced and most experienced country in the area of women's rights in the region.** The Personal Status Code (Decree of 13 August 1956) guarantees all fundamental rights to Tunisian women and children. Equality is a reality in terms of access to health care and education. However, women represent only 26% of the labour force and the

unemployment rate among women is eight points higher than among men (18.9% against 10.9% in 2010). In addition, working and living conditions are still precarious for rural women.

## D. Environment and Climate Change

**2.1.29 The 2009 national report on the environment mentioned a series of environmental achievements related to** changing trends in: (i) the rate of forest cover, (ii) the rate of connection to sewage systems; (iii) the creation of landfills; and (iv) the development of national parks and natural reserves. Unfortunately, the policies implemented did not allow for mainstreaming environmental considerations into the development process.

**2.1.30 Water is Tunisia's most valuable environmental asset.** Thus, with a harnessing rate of 95% of available water, Tunisia's water policy is expected to shift towards better control of this resource as well as its distribution to users (improved resource use).

**2.1.31 A warmer and more varied climate is expected in Tunisia by 2030.** These expected changes will have a significant impact on water resources, agriculture and natural resources. Other sectors and/or activities are also particularly vulnerable to climate change, namely health, tourism and the coastal strip where a considerable part of the country's socio-economic development

activities are concentrated. Climate change will result in increased pressure on natural resources and the main related socio-economic activities. In 2050, the impact is expected to be close to TND 102 million (0.3% of GDP). This warrants effective environmental mainstreaming in management and governance.

**2.1.32 Energy intensity, which stands at 0.08 ktoe per USD 1000 of GDP, is below the world average of 0.13 as well as the MENA region average of 0.18.** Based on prospective studies, the potential for mitigating greenhouse gas emissions in Tunisia has been identified among the main economic activities. Tunisia has a commendable proactive policy with regard to the management of energy as well as new and renewable energies (wind, solar, sludge from treatment plants).

## 2.2 Strategic Options

### A. Country Strategic Framework

**2.2.1 The transitional period is characterized by a great deal of uncertainty.** The political outcome of elections, the institutional organization resulting from the new Constitution and the duration of the transition process are factors that will certainly have an impact on the structural changes and economic and social policies implemented. Unlike the previous CSP which hinged on the pursuance of successive five-year plans, the Bank's strategy for the 2012-2013

period should include new revolution-induced priorities and, as far as possible, random factors inherent in the transition process.

**2.2.2 The number of assumptions and related risks calls for a flexible intervention strategy.**

### B. Transitional Government's Agenda

**2.2.3 The Interim Government has adopted an economic and social development agenda based on the implementation of far-reaching policy reforms to meet the aspirations of the revolution** as well as sector policies centred on major infrastructure projects and the implementation of reforms to transform Tunisia's development model. This agenda, which is partly a follow-up to the action of the previous Government, aims to strengthen competitiveness and stimulate sustainable growth based on greater social cohesion to ensure a lasting improvement in the living conditions of the population. The Government's agenda focuses on six key priority areas: (i) Human development and social and regional inclusion; (ii) Governance, social accountability and citizen participation; (iii) Employability, job creation and economic sophistication; (iv) Global integration; (v) Financing of the economy; and (vi) Environment and natural resource management.

**2.2.4 The implementation of Government's new economic policy, the short-term recovery**

plan and the creation of enabling conditions for democratic transition imply increased financing needs, which calls for greater mobilization of external resources. Besides the role of the international community in providing needed financial resources, technical cooperation should be intensified to carry on structural reforms in the institutional domain and the business environment, develop research and innovation, and liberalize trade in sectors that are still highly protected (financial, services and agricultural sectors) to meet globalization requirements.

**Table 3: Tunisian Government Strategy**

Challenges and Constraints	Strategy Pillars	Government's Strategy
<ul style="list-style-type: none"> <li>Establishing participatory democracy:</li> <li>Restoring macro-economic stability and a sustainable growth model:</li> <li>Infrastructure development</li> <li>Natural resource management and climate change.</li> <li>Reducing the poverty rate and regional disparities:</li> <li>Reducing unemployment and improving integration:</li> <li>Consolidating the banking sector and debt control.</li> </ul>	Social and regional inclusion	<ul style="list-style-type: none"> <li>Social Accountability and Citizen Participation</li> <li>Strengthening Associative Action</li> <li>Development of competition</li> </ul>
	Integration into the global economy	<ul style="list-style-type: none"> <li>Access to Information</li> <li>Participatory reform of the administration</li> <li>New Trade Policy</li> </ul>
	Financing of the Economy	<ul style="list-style-type: none"> <li>Reallocation of powers and resources between the State and the Regions.</li> </ul>
Economic Sophistication and Employability	Human Development	<ul style="list-style-type: none"> <li>Reform of banking sector governance and development of financial markets</li> <li>Development of micro-credit</li> <li>Strengthening of job creation and integration, especially in the regions</li> <li>Strengthening technological infrastructure</li> </ul>

2.2.5 *At the same time, the Government has also underscored the fact that the implementation of this new economic policy should be accompanied with sustained efforts*

*towards integration into the global and regional economies, particularly Europe, the Great Arab Free Trade Zone (GAFTA) and AMU. Within this framework, Tunisia will also benefit from many bilateral trade agreements signed since 1999, seek to continue cooperation with sub-Saharan African countries and develop investment projects in the industry and services sectors.*

## C. Challenges and Weaknesses

The main pre-revolution challenges persist.

### ► Level and quality of infrastructure

2.2.6 *The 2009 economic crisis prompted public authorities to step up their efforts to improve public services and launch major structuring infrastructure projects.*

**Table 4: Tunisia Infrastructure Quality 2009-2010**

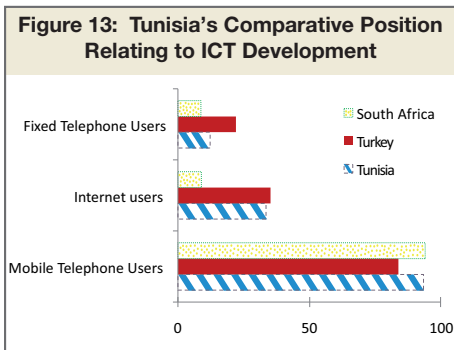
Region	Road		Air Port		Port	
	Rank	Score	Rank	Score	Rank	Score
France	3	6.5	9	6.3	10	5.9
Spain	22	5.8	37	5.5	33	5.2
<b>Tunisia</b>	<b>43</b>	<b>5.0</b>	<b>30</b>	<b>5.8</b>	<b>41</b>	<b>4.9</b>
Egypt	80	3.9	44	5.3	57	4.3
Turkey	34	5.3	54	5.1	78	3.7
Morocco	66	4.3	70	4.7	62	4.2
Italy	79	4.0	85	4.1	83	3.7

\*1 = extremely underdeveloped, 7 = extensive and effective  
Source: World Economic Forum 2011-2012

2.2.7 *Tunisia performs well in basic infrastructure.* Economic performance over the

past decade, hailed by all observers, has been achieved through new donor-backed infrastructure investments and by the regular rehabilitation of existing infrastructure. Tunisia features prominently in the ranking on communication infrastructure quality. Tunisia is ranked 30th in the world for airport infrastructure and 41st for port infrastructure, well ahead of major emerging countries and some countries in Europe.

*social and educational infrastructure, especially in disadvantaged areas.* In these areas, special attention should be paid to all basic infrastructure, namely transport and logistics, sanitation, telecommunications, education, health and social services. In future, public-private partnership should be developed to streamline the selection of projects and improve their management.

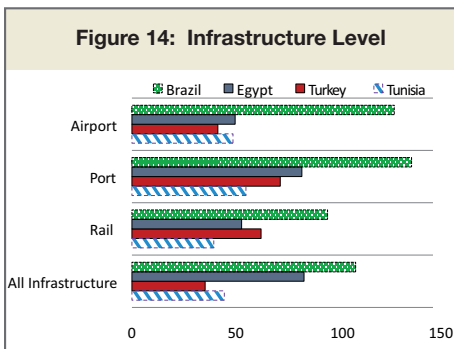


Source: WDI 2010

The revolution brought in its wake new challenges that need to be met to restore macro-economic stability and a sustainable growth model.

► **Macroeconomic Balance**

2.2.9 *Macro-economic imbalances are considerable but not insurmountable in the short term. Tunisia is able to meet the increased financing need at least for 2011. However, the severe GDP reduction in 2011 as well as a cut in government spending under the recovery plan will affect the budget balance in 2012 and 2013. Consequently, donor support to the recovery plan is vital for the Tunisian economy to absorb the economic shock of the revolution in a timeframe comparable to that observed during the 2008-2009 crisis.*



Source: World Economic Forum 2011-2012

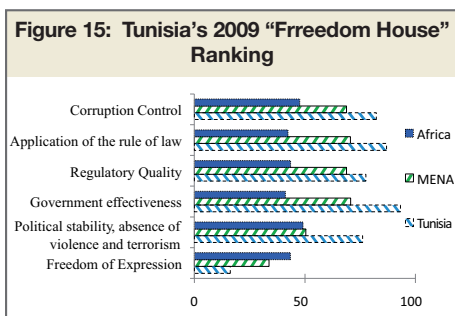
2.2.8 *The challenge for Tunisia over the next five years is to maintain the level of public investment that will sustain the quality of basic infrastructure and develop health,*

► **Governance**

2.2.10 *Macroeconomic stability hinges on political stability, institutional transparency, an improved business climate and a*

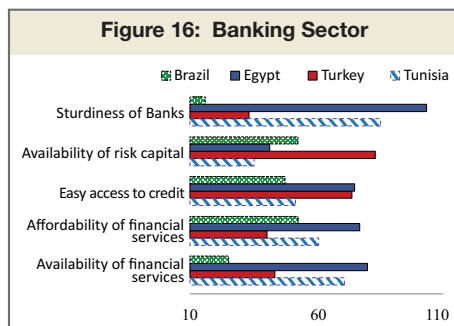
sustained public infrastructure investment policy. Implementing the reform on public access to information will mark a clean break with the past. Upstream, the implementation of macroeconomic policies also requires the creation of accessible statistical databases coordinated by the NIS. In this regard, Tunisia must make progress regarding access to statistical information, most of which is of good quality but which, at the sector level, is scattered across ministries and is not sufficiently consolidated by NIS statisticians for want of human resources.

2.2.11 Moreover, steadily rising social and labour demands and uncertainties related to the economic governance problems of the old regime and geopolitical uncertainties in the sub-region strongly influence recovery of the private sector, in particular the financial sector.



2.2.12 Consolidation of the banking sector is a priority for the Tunisian Government, cognisant of the weaknesses that emerged especially in state-owned banks after the

collapse of the old regime. In particular, cash flow problems, reduced tourism numbers (some banks are heavily exposed to this sector), and the Libyan crisis continue to affect banking sector performance. Tunisia appears relatively poorly ranked internationally compared to other emerging countries (Turkey, Brazil) regarding access to credit and risk capital availability. The very close link between the banking sector and the regime had helped to undermine the system's performance. Better governance in the banking sector and streamlining efforts will help to improve Tunisia's banking sector performance.



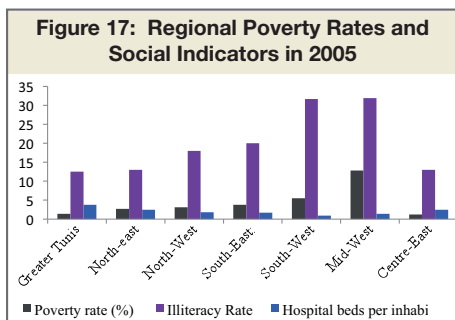
Source: World Economic Forum 2011-2012

► **Reduction of Poverty and Regional Disparities in Education and Health**

2.2.13 The revolution disrupted the production system and highlighted new challenges expressed in terms of very strong social demands. The South-West and Mid-West Regions have the highest poverty rates. According to NIS data, the rural poverty rate in 2005 was 3.5 times higher than the urban



poverty rate, whereas in 1995 the urban poverty rate was 1.5 times higher than the rural poverty rate. The difference in living conditions in rural areas and increased access to higher education for the youth may largely justify the migration and uncontrolled explosion of shanty towns on the outskirts of municipalities. According to observations made in middle-income countries, there is a natural correlation between the poverty rate and the unemployment rate, HDI, functional illiteracy, access to health services and education.



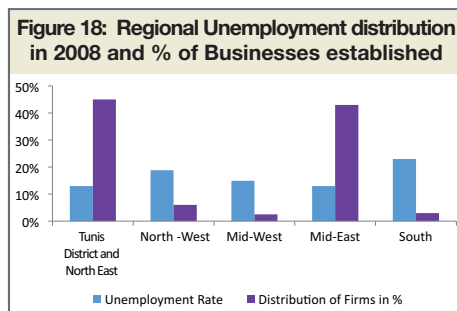
Source: NIS, Ministry of Health, Governorates

**Table 5: Urban and Rural Poverty Trends in 1985-2005**

	1985	1995	2000	2005
Poverty Line (TND)	147	292	351	400
Rural (TND)	95	181	221	378
Urban (TND)	190	362	428	429
Total Number of Poor People (in Thousands)	554	559	399	376
Rural	229	170	103	248
Poverty Rates (%)	7.7	6.2	4.2	3.8
Rural	8.4	7.1	4.9	1.9
Urban	7	4.9	2.9	7.1

## ► Reducing Unemployment and Improving Integration

**2.2.14 University graduates are particularly affected by unemployment**, the rate of which is 37.5% in the South-West (Gafsa, Tozeur) and 28.2% in the Mid-West (Sidi Bouzid, Kasserine) Regions. In contrast, according to NIS data, the unemployment rate is 13.9% in the Greater Tunis region, while the average national unemployment rate in 2008 was 14.2%. The unemployment rate is expected to rise to 17% in 2011 due to the Libyan crisis and the slump in growth. There is an inverse relationship between unemployment and the number of businesses set up in the regions.



Source: NIS.

**Table 6: Tunisia, Scores - CPIA**

	CPIA Score	Econ. Manag.	Pol. Struct.	Soc. Incl. Pol.	Governance
2006	4.46	4.83	3.83	4.7	4.1
2007	4.71	5.17	4.17	4.8	4.2
2008	4.77	5.17	4.33	4.8	4.1
2009	4.80	5.17	4.33	4.9	4.3
2010	4.82	4.17	4.50	4.8	4.3
2011*	4.62	4.82	4.16	3.6	4.3

\* provisional

### Challenges for Tunisia

- Establishing participatory democracy
- Ensuring macro-economic balances and improved public sector governance
- Improving the business climate and reforming the investment code
- Reducing the poverty rate and regional disparities regarding access to social services
- Maintaining the quality of basic infrastructure, developing and upgrading health, social and educational infrastructure in the regions
- Reducing unemployment among graduates and improving integration mechanisms
- Consolidating the banking sector.

### ► Establishing Participatory Democracy

2.2.16 *There is a significant deficit in Tunisia in terms of social inclusion, participation and citizen control.* The “freedom of expression and accountability” indicator was well below the average for the Africa and MENA (Middle East and North Africa) regions, and is characterized by lack of political rights and civil liberties denounced by international human rights NGOs such as Global Integrity Report and Freedom House. In fact, Tunisia’s public services were highly centralized, with the omnipresence of the State in the lives of the people. As a result, civil society development was limited and even discouraged.

## D. Strengths and Opportunities

### ► A Real Capacity to Implement Economic Policies

2.2.15 *Pre-revolution Tunisia had demonstrated its capacity to design and implement economic policies.* The State has a comfortable leeway to implement an expansionist policy, in view of the country’s sound economic and financial fundamentals. The adoption of consistent economic policies helped to cushion the external shock of the 2008-2009 crisis, adverse weather conditions resulting in many years of drought (2001, 2002, 2008) and high energy and commodity prices. Economic policies enabled Tunisia to maintain an attractive global competitiveness level.

2.2.17 *However, after the Revolution, Tunisians expect greater transparency and opening of the public system to civil society at the national and local level.* This state of affairs offers Tunisia a unique opportunity to improve governance. On-going reforms, including the new law on associations, reflect significant advances in this area. However, the burgeoning civil society (over 1000 associations created) needs strong technical and financial support to develop and take shape.

### ► A Diversified Economy

2.2.18 *Tunisia’s economy is relatively diversified.* The structure of Tunisia’s GDP

indicates a relatively even distribution of value added across sectors. Agriculture accounts for 11% of GDP, the manufacturing industry 16.7% and services 45.5%, including tourism which accounts for 6.3% of GDP.

**2.2.19 Tunisia has a huge sector potential** (tourism, agriculture, manufacturing, textile and aeronautical industries, etc.) and opportunities likely to promote new niches for growth and employment (such as ICTs, exportable health services). To these advantages should be added the country's proximity to European markets, which is propitious for sustainable growth despite the difficult economic situation in Europe.

**Table 7: Tunisia's Ranking in Relation to ICT Development**

Economies	2010-2011 Ranking	2009-2010 Ranking
Sweden	1	1
Singapore	2	2
Finland	3	6
Switzerland	4	4
United States	5	5
China *	6	11
Denmark	7	3
Canada	8	7
Norway	9	10
South Korea	10	15
<b>Tunisia</b>	<b>35</b>	<b>39</b>

Source: World Economic Forum \* Including Taiwan

**2.2.20 The structural transformation of the economy depends on a much greater contribution to growth by the services sector**

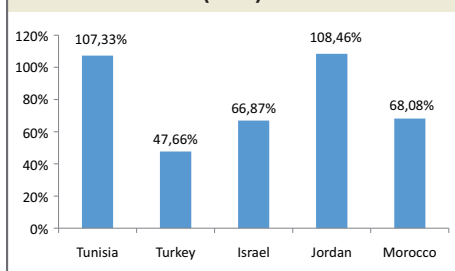
whose share is expected to attain 66% of Gross Domestic Product (GDP) in 2014, and a substantial contribution of exports to growth of about 40.2%. However, the performance of the services sector has remained below the average for middle-income and East Asian countries. Between 2000 and 2008, the sector recorded an average annual growth rate of 5.9% in Tunisia, as against 6.2% for middle-income countries and 9.1% for East Asia. The average growth in nominal value of service-related exports was 10% over the same period, as against 16% for middle-income countries and 17% for East Asia. For some years now, exports of NICT-related offshoring services (call centres), and health and education services have experienced an upsurge, but their share of overall exports remains too low to have any significant impact on macro-economic data. Thus, service-related exports are still largely driven by the tourism sector with close to 80% of Tunisia's service-related exports comprising tourist, travel and transport services. Against this backdrop, efforts must continue to improve the business climate in the services sector with a greater openness to FDI and export promotion for competitive commodities.

### ► High Integration into the Global Economy

**2.2.21 Since the late 1990s, Tunisia has been strengthening its integration into the global economy.** Given the country's openness to the outside world, foreign trade and foreign

investment are the two main growth drivers. The rate of openness of the economy is 107% higher than that of Turkey, Israel and Morocco. Better integration of the onshore economy will buttress the ripple effect in terms of growth and job creation.

**Figure 19: Tunisia's Openness Rate (2009)**



## 2.3. Aid Coordination/Harmonization and Positioning of the AfDB in the Country

**2.3.1 Tunisia subscribed to the Paris Declaration on Aid Effectiveness, which recommends the conduct of a survey to monitor the related indicators.** The country did not participate in the global surveys carried out by the OECD, but the internal survey conducted by the Bank in 2011 shows that aid provided to Tunisia is relatively well aligned on national priorities.

**2.3.2 As government services have sufficient managerial capacity, the Tunisian Government is responsible for planning and coordinating donor interventions in Tunisia.**

Regarding alignment and harmonization of procedures, projects financed by the Bank and key TFPs in Tunisia are mainly implemented by ministries and public institutions, thus limiting the setting up of parallel structures. Similarly, the use of national procedures is increasingly desirable. In this context, the Bank has begun implementing its strategy for the use of country procurement systems (Annex 8). Phase 1 of this strategy that will be completed during the period covered by this CSP will allow for the use of country procurement procedures for all national competitive bidding planned under Bank-financed projects. Use of the country system for major bidding procedures (international competitive bidding) also remains a concern shared with other partners. However, this goal can only be achieved if the procurement system is comprehensively and thoroughly reformed. In the meantime, the Bank (with the World Bank and possibly OECD) is providing technical support to the government to help improve procurement procedures and intends to continue permanent dialogue to sustain the commitments made.

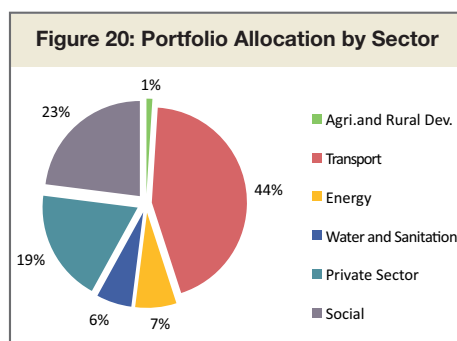
**2.3.3 Moreover, collaboration and coordination with other donors for co-financed programmes is very developed.** Partners: (i) share analytical work; (ii) carry out joint identification/preparation missions within the framework of the SME Line of Credit (June 2011), budget support to the Recovery Support

Programme (June 2011) and PAI (March 2010) leading to the preparation of joint aide-memoires; (iii) develop a matrix of common measures during the implementation of multi-donor programmes; and (iv) carry out negotiations in a coordinated manner. Joint programmes are presented successively to the Boards of the Bank, the World Bank, the AFD and the EU to ensure greater complementarity and a sustained rate of implementation of measures. The design of all programmes is consistent with other principles of the Paris Declaration, namely the alignment of aid on national priorities, the use of country systems (resource allocation directly to the national budget and the designation of MPCCI as programme coordination body); and the Government's commitment to implement reforms.

**2.3.4 Regarding private sector development, the AfDB is continuing collaboration with other partners.** For North Africa and during G8 meetings in 2011, IFIs proposed a joint private sector development action. In this regard, the AfDB is currently designing a coordination platform based in its temporary headquarters in Tunis. Furthermore, an agreement was signed with the EBRD in September 2011 to enhance cooperation.

**2.3.5 In September 2011, Tunisia's active portfolio was the Bank's second largest on the continent, with total net commitments of UA 1,574.10 million, and a**

**46.78% disbursement rate.** It includes a total of 21 projects and programmes financed by AfDB loans (including 6 fully disbursed non-sovereign projects), 14 technical assistance grants and one emergency assistance grant. The sector breakdown of the portfolio is dominated by a concentration in the infrastructure sector (58%) and economic and social policy-based operations (34%).



Source: AfDB

**2.3.6 Overall portfolio performance was maintained at 2.7/3 (at the same level as in 2008).** Financial performance is driven mainly by two public policy-based programmes (PAI and PGDI) and two airport and gas sector projects, the loans for which have been fully disbursed between 2009 and 2011. The pace of implementation of conventional public sector projects remains slow, affected by relatively long procurement and disbursement timeframes. The average age of the portfolio is 3 years against 3.8 years in the 2008 review, which shows marked portfolio rejuvenation over the last three years.

**Table 8: Portfolio of On-going Projects Funded by Various Donors (USD M)  
Mid-October 2011**

	Agric	Gov.	Human Dev.	Transp.	Energy	Water San.	Regional Integr.	Environ.	Private Sector	Total	%
AFDB	15.6	1.1	597.0	1127.5	178.2	144.7	0.0	0.0	483.5	2496.6	30%
EIB	0.0	0.0	0.0	696.0	824.0	40.0	0.0	0.0	649.0	2209.0	26%
AFD	47.1	315.4	186.0	130.5	220.3	359.5	1.1	69.6	74.0	1403.3	17%
WB	0.0	500.0	17.0	0.0	63.5	195.4	41.8	120.8	0.0	938.5	11%
EU	0.3	681.8	45.0	20.3	0.0	14.5	1.4	52.3	0.0	815.7	10%
KfW	0	0	0	1.45	68.2	255.2	0	63.1	107.9	495.8	6%
GIZ	0.0	0.1	17.8	0.0	12.2	0.0	8.7	39.2	0.0	77.9	1%
UNDP	0.0	1.4	6.7	0.0	6.7	0.0	0.0	0.0	0.0	14.8	0%
EBRD	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0%

Source: AfDB exchange rate, September 2011, Grant flow for the 2006-2011 period for the EU.

## III. Bank Group Strategy

### 3.1 Rationale for Bank Group's Intervention

3.3.1 *Given the uncertainty of the transition period, a flexible approach should be adopted, based on constant dialogue and a regular review of strategic intervention options and priorities.* Thus, the Bank has focused on an interim strategy, based on the Transitional Government's new development policy for the 2012-2013 period, while formulating long-term strategic orientations.

3.1.2 *The CSP was developed in a participatory manner with extensive stakeholder consultations.* During CSP preparation, special emphasis was placed on the Tunisian civil society, with a view to its involvement in defining and validating the intervention pillars (Annex 12). The preparation mission met with technical ministries, public and semi-public entities, civil society organizations, the youth, academics, private sector representatives and other donors involved in the mission. These consultations allowed for fruitful exchanges on the country's strategic orientations and partnership between the Bank Group and Tunisia during the period

concerned. The strategy paper was closely discussed with key development partners who also acted as peer reviewers.

3.1.3 *The CSP prioritizes the principles of alignment on Government's priorities, complementarity with the operations of other donors and consolidation of the achievements of previous operations.* The operations take into account the disruption brought about by the Revolution, particularly in the social and national planning domains, but also are a follow-up to previous infrastructure development programmes (CSP 2007-2011).

3.1.4 *Furthermore, the CSP is in line with the inclusive growth strategy* discussed by the Bank Board during the Annual Meetings in June 2011.

#### ► **Lessons Learned from the Previous CSP**

3.1.5 Key lessons from the previous CSP are summarized in Annex 5. These are mainly:

- Adopting a **flexible strategy** that can adapt to changes in the country context

to take into account the impact of external and internal shocks on the country's macroeconomic balance and stability.

- Allocating **resources specific to the private sector** whose revitalization warrants increased Bank support in the coming years.
- Strengthening the **participatory approach** in CSP preparation through greater involvement of civil society, which will play a more active role in the new context of democratic transition in the country.
- Improved targeting of the CSP objectives and choosing **fewer measurable outcome indicators** for the CSP pillars.

3.1.6 *To take these lessons into account, a modus operadi to enhance the relevance, consistency and efficiency of Bank actions was drawn up.* The Bank's operating methods will focus on:

- **Selectivity.** Project selection should be based on a set of indicators in line with the objectives of the revolution. Such indicators must highlight the impact on income, employment (both direct and indirect), reduction of poverty and regional inequalities. For private sector operations, the ADOA methodology will be adapted and indicators defined to highlight the "inclusive" aspect of the projects appraised.

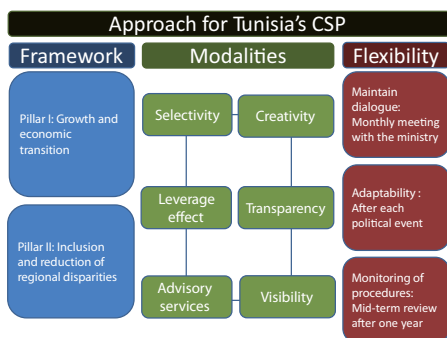
For public sector operations, a specific evaluation framework will be developed such as the adaptation of the ADOA framework.

- **Advisory services:** Strategy implementation should be backed by studies to improve knowledge. In particular, a growth diagnostic could be conducted. A list of potential economic and sector work and identified with Ministries is presented in Annex 7. The Bank will avail its services to Tunisia throughout the CSP period to assist the country in its strategic choices.
- **Leverage Effect.** The search for leverage effects should systematically lead to the quest for better coordination of Bank activities with the other donors, particularly concerning social projects. In addition, private partners should be sought for infrastructure development. The Bank will endeavour to mobilize resources from the Global Environment Fund.
- **Transparency.** Civil society involvement will be strengthened through: (i) consulting civil society during the identification and design of Bank operations; (2) developing mechanisms to support civil society both technically and financially; and (3) involving civil society in the evaluation of activities.
- **Visibility.** Communication on the Bank's operations with beneficiaries should be



permanent to strengthen ownership of aid by beneficiaries. In this regard, discussion sessions were held to present the AfDB's actions and to strategize with civil society members.

- **Creativity.** Using traditional operations funding instruments alongside all its instruments. For instance, the possibility of financing state-owned enterprises through a combination of non-sovereign and sovereign financing will be discussed.



### ► New Action Framework

3.1.7 *The Tunisian authorities want to break with the governance model instituted by the former regime.* The old development model was characterized by dissonance between the political dimension (for long marked by very strong centralization and lack of democracy) and socio-economic dimensions (for which the country has recorded undisputed performance and made major strides despite

persistent weaknesses regarding the distribution of national wealth, particularly between the interior and coastal areas). The Bank's areas of intervention seek to address these new challenges.

The intervention framework is presented in **Annex 1.**

## A. Pillar I: Growth and Economic Transition

The Bank's sub-objectives and actions under this area of intervention include:

### A1. Strengthening Governance

3.1.8 *Through fast-disbursing operation, technical assistance and analytical work, the Bank will strive to support the Government's structural and sector reforms towards a qualitative transformation of the institutional framework for implementing and monitoring the country's economic and social policies.* The objective will be to: (i) improve institutional and economic governance through the establishment of a systemic, participatory, measurable and visible process for reviewing administrative regulations and procedures for businesses and citizens so as to streamline procedures and limit discretion in the application of rules, and allow for a significant business climate improvement; (ii) continue public finance and procurement system reforms; and (iii) reform regionalization for the development of a participatory local democracy.

## A2. Supporting Economic Transformation

3.1.9 *Tunisia has reached a stage in its development that requires integration increasingly oriented towards high value-added products.* Such orientation calls for the strengthening of innovation - defined as the creation, adoption and adaptation of new technologies enabling businesses to market new or different products.

3.1.10 *In this regard, the services sector offers many opportunities.* Recent surveys have shown that rising productivity and a growth rate of more than 6% in the coming years will depend on progress in integration and innovation in the sector. The Bank could support reforms to bring about the controlled liberalization of tradable services for which Tunisia enjoys a comparative advantage, or services of which liberalization would enhance competitiveness and significantly impact job creation. However, reforms aimed at strengthening the integration of services and innovation would make a significant impact only if the business climate is further improved. The Bank could support the development of a research and innovation system and back reforms that promote public-private partnership in this domain.

## B. Pillar II: Inclusion and Reduction of Regional Disparities

The Bank's sub-objectives and actions under this area of intervention include:

## B1. Access to Basic Infrastructure and Local Social Services

3.1.11 *The Bank will support reforms to reallocate part of investment expenditure to reduce regional disparities based on objective socio-economic criteria.* In this regard, regionalization reform is expected to reduce regional disparities.

3.1.12 *Support for on-going reforms in the education and health sectors to develop human capital in disadvantaged areas will continue.* The stakes are human capital development, social protection and access to local social services. In fact, the aim is to enhance access to basic social services.

3.1.13 *In addition, the Bank will continue its investments to improve the population's access to basic infrastructure.*

## B2. Job creation and Employability

3.1.14 *Support to micro-credit will help to support self-employed entrepreneurs.* Currently, micro-credit services are provided only by two major actors, namely the Network of Development Associations (DA) under BTS supervision and ENDA. There is an on-going study on BTS restructuring financed by the Bank under the budget support prepared in 2011. To promote job creation and income generation through micro-credit, the Bank plans to support the establishment and strengthening

of micro-finance institutions in the most disadvantaged regions, in conjunction with the EU – a key player in this domain.

**3.1.15** *At the same time, the Bank will support the programme aimed at improving the employability of young graduates (AMAL I and II Programmes). The Bank will support mechanisms for integration in the private sector. Furthermore, the Bank will support Government's efforts to promote vocational training that boosts the qualification of human resources and their integration in working life. This strategy backed by the reform of qualification and integration mechanisms should help to streamline the job situation.*

**3.1.16** *The Bank will also support the development of productive activities in the rural sector. Rural development will be accompanied by the implementation of sustainable development strategies to preserve and better mobilize water resources, and strengthen alternative agricultural policies within the context of climate change.*

**3.1.17** *The Bank will also finance the development of private sector infrastructure or activities with a high job creation potential, particularly in disadvantaged regions. This will help to promote growth based on enhanced social cohesion, thereby facilitating the implementation of reforms. The aim is to boost the region's attractiveness to*

job-creating and value-adding investments. In this regard, the Bank's operations should have a leverage effect on other donors as well as public and private investors.

## **3.2 Specific Objectives, Actions, Expected Outcomes and Targets**

The results framework is in **Annex 2**.

### **A. Monitoring and Evaluation**

**3.2.1** *Monthly dialogue with the authorities as mentioned in paragraph 3.4 will permit close monitoring of the portfolio implementation status and evaluation of outcomes. A mid-term review will be conducted one year after.* This monitoring will be based on the country's monitoring and evaluation system, which has well-developed statistical tools.

### **B. Outputs and Targets of Pillar I.**

**3.2.2** *Regarding governance, Bank action will help to further improve the rules governing economic activities by creating an enabling environment for private sector and local skills development.* The Bank will also continue to support reforms defined under the PAGDI programme approved by the Tunisian Government, which supports a national priority and places Tunisia on the path to democratic transition. The Bank's current reform programmes fall under CSP

2007-2011 and should underpin the new CSP to enhance the efficiency of the Tunisian model by gradually introducing a culture of performance-based management, gender equality and skills development at the national and local level.

**3.2.3** *Regarding support to growth, the Bank's activities will consist in supporting the Government's objective of making Tunisia attractive to investment.*

**3.2.4** *These actions will promote sustainable growth consistent with macroeconomic stability and incentives for domestic and foreign investors.* The Bank's operations will focus mainly on the services sector, which offers many opportunities for increasing exports and improving Tunisia's trade and technological integration.

## C. Outputs and Targets of Pillar II:

**3.2.5** *The Bank's activities will contribute to achieving Government's objective of opening up rural areas and improving access by the population to basic infrastructure (water, energy and social services).* Infrastructure development and rehabilitation will help to consolidate corporate competitiveness (availability of logistics and reduction of production costs) and development of private sector activities. Supporting the implementation of major structuring projects will strengthen the job

creation potential and reduce vulnerability and inequalities.

**3.2.6** *The Bank will also support the conduct of analytical work aimed at identifying promising sectors with high job-creating potential, to enhance the efficiency of the mechanism established to combat unemployment and exclusion,* especially among the youth and disadvantaged persons. Supporting the development of production activities through micro-credit in the rural sector by boosting job-creating private investments will help to promote growth based on enhanced social cohesion and hence facilitate the implementation of reforms.

## 3.3 Country Dialogue Issues

**3.3.1** *This Interim CSP is part of a progressive approach to Tunisia's political, economic and social situation.* It is a starting point for implementing Bank support to the development strategy of the Tunisian authorities. The political events of the coming months, the macroeconomic situation influenced by an unstable global context and a changing regional environment require a more flexible approach from development partners.

**3.3.2** *Flexibility translates into the institution of permanent dialogue and monthly meetings with the Tunisian authorities and at each*

*important political or economic and social event* during the transition period, in order to tailor the Bank's response as may be required. Such flexibility, in tune with the context of the pillars and operating procedures as set forth in the strategy paper and approved by the Bank's senior management, will be endorsed by the country team.

3.3.3 *In addition, the need for private sector financing and arbitration to be made by the Bank between sovereign and non-sovereign financing* will be regularly discussed with the Government.

3.3.4 Climate change and environmental protection issues will be regularly discussed in particular when designing projects, in order to weave them into the Bank's Green Growth Strategy, Climate Risk Management and Adaptation Strategy Framework (CRMA - (2009) and Climate Change Action Plan (2011-2015).

3.3.5 *For these reasons, the Bank's intervention logic outlined in the document and annexes is indicative and adaptable to the major political and institutional events.*

## 3.4 Risks and Compensatory Policies

### ► Political, Social and Economic Instability

3.4.1 *Political instability is a major threat to Tunisia in the short term.* Nevertheless,

the electoral process was well managed and there is a genuine political will to institute a stable democracy. Besides, political priorities may change. The flexible nature of the CSP and constant dialogue will make it possible to adapt to changing needs and policy priorities.

3.4.2 *Social instability and resulting insecurity often accompany transitions to democracy.* Social conflicts and protest movements are numerous and will only cease after the October 2011 elections if the transitional government quickly implements the development policy formulated in May 2011. AfDB action in this regard will be crucial.

3.4.3 *The economic risk should also be considered.* The magnitude of macroeconomic imbalances can be determined in the short run but three-year projections are difficult to assess. In 2011, Tunisia will be capable of meeting its increased financing need. However, the severe GDP reduction in 2011 will affect the budget balance in 2012 and 2013. In addition, the Europe-wide economic slowdown projected by OECD will impact foreign trade and foreign investment. In this regard, the transitional government has room for manoeuvre at the monetary level, to sustain domestic demand. The Central Bank reduced the reserve requirement ratio to 2% in late July and maintained its intervention rate at 3.5%.

**3.4.4 *The risk of instability in the sub-region should not be overlooked.***

However, resolving the Libyan crisis could represent a growth opportunity as well as a source of employment for Tunisia.

**► Youth Employment and Regional Disparities**

**3.4.5 *In the medium term, Tunisia still faces two major challenges: youth employment and regional disparities in terms of poverty and, more generally, development.*** If these two issues are not adequately addressed, instability is likely to persist and the economic model may be sustainably affected. Regarding youth employment, particularly for young graduates, policies implemented through the

AMAL programmes will not reverse the structural unemployment of young people, even though they have been relatively effective in the short term. However, these policies have helped to swell the public sector workforce which may undermine future public finance management. Reducing the unemployment rate requires a complete overhaul of the Tunisian educational set-up from a certificate-based to a vocation-based system, to allow better youth integration in the private sector. Regional differences may be mitigated by a thorough overhaul of the institutional framework governing the regions. Decentralization should be based on some guidelines: administrative and political autonomy of regions except for regulatory functions, and the introduction of redistributive and investor-friendly taxation.

## IV. Conclusions

### 4.1 Conclusions

4.1.1 *The 14 January 2011 Revolution profoundly and permanently changed the context and content of development partner operations.* In particular, these interventions must be sufficiently flexible to adjust to the changes that will inevitably occur in the next two years, and must also be guided by the quest for efficiency in terms of instruments used by the Bank and the impact on income generation and employment.

4.1.2 *However, as the new context does not call into question the need for a sustainable and inclusive growth model in a coherent analytical framework,* continued infrastructure investments are the bedrock of long-term economic development. To these

two elements should be added the urgent needs for infrastructure expansion in the health and social sectors and development rebalancing in favour of disadvantaged regions.

4.1.3 *Whereas actions to be undertaken have been identified, the challenge for the Tunisian authorities is to raise funds to carry through the "Jasmine Strategy".* To address these issues and generate leverage, donors will need to improve the coordination of their activities and make use of all available market instruments.

4.1.4 *Accordingly, the Bank's strategy for 2012-2013 builds on two pillars that dovetail into the strategy of the Tunisian authorities:* I. Growth and Economic Transition; II: Inclusion and Reduction of Regional Disparities.

## ANNEXES

## Annex 1

## STRATEGIC FRAMEWORK FOR INTERVENTION

Challenges and Constraints	Government's Strategy		CSP 2012-2013	Strategy: Consolidate the gains of the revolution and promote a sustainable development model
			Pillars	Expected CSP Outcomes
Establishing participatory democracy  Restoring macro-economic stability and a sustainable growth model  Infrastructure development  Natural resource management and climate change.	Governance, social accountability and citizen participation	Strengthening associative action	Pillar I: Growth and Economic Transition	<b>Output 1:</b> The private sector and local skills benefit from an improved environment. This environment is attractive to domestic and foreign investors.  <b>Output 2:</b> The effectiveness of the Tunisian model is enhanced by the gradual introduction of a performance-based management culture and through the promotion of innovation.
		Development of competitiveness		
	Access to Information			
	Improved budget management for enhanced transparency and efficiency			
	Participatory reform of the administration			
Improved public sector performance	Transparency in procurement procedures and reduction in processing time			
Reducing the poverty rate and regional disparities	Integration into the global economy	Change in trade policy: shift from preferential approach to a global approach to integration.		
		Development of logistics to fully encompass international logistics networks in order to reduce foreign trade transaction costs.		
Reducing unemployment and improving integration	Human development and social and regional inclusion	Reallocation of powers and resources between the State and the Regions.	Pillar II: Inclusion and Reduction of Regional Disparities	<b>Output 1:</b> Human capital is developed, and access to local social services and basic infrastructure is improved.  <b>Output 2:</b> The employment situation is improved through reform of the education and qualification and integration mechanisms .  <b>Outcome 3:</b> Regionalization reform and development of private sector financing mechanisms reduce regional disparities
		Strengthening job creation (AMAL) and qualification mechanisms particularly in the interior and disadvantaged regions of the country.		
Reforms to stimulate private initiative and foster the business climate.				
Strengthening technological infrastructure and financing creation and innovation.				
Selection of board members and officials of banking institutions in accordance with international best practices.				
Consolidating the banking sector and debt control	Improving conditions for financing the economy	Reviewing the regulatory framework governing micro-finance		
		Strengthening the prudential component and risk capital		



**LOGICAL FRAMEWORK - FLEXIBLE AND SUBJECT TO REVISION DEPENDING ON THE POLITICAL, ECONOMIC AND SOCIAL TRENDS, AND THE FINANCIAL RESOURCES THAT THE AfDB CAN MAKE AVAILABLE TO TUNISIA**

Objectives of Tunisia's development strategy	Problems undermining the achievement of strategic objectives	Expected OUTCOMES at the end of the CSP period in 2013	Final OUTCOMES (to be expected at the end of the CSP in 2013)	AfDB interventions that could potentially be implemented during the CSP period	
				Potential technical assistance and studies	Potential Loans
<b>PILLAR I Growth and Economic Transition</b>					
<b>A1. Strengthening Governance.</b>					
Governance, social accountability and citizen participation	Weak civil society organization	The private sector and local skills benefit from an improved environment.	Civil society participation mechanisms in defining public policy objectives are implemented	<b>Technical assistance and studies</b> Support to the structuring of civil society and development within the AfDB of a sustainable mechanism for civil society involvement in defining and designing projects.	<b>Loan #A:</b> A set of coordinated actions reinforced by budgetary policy-based support
	Centralized and compartmentalized administration		Administrative reforms have been initiated, based on the quest for public policy effectiveness	<b>Technical assistance and studies</b> Conduct of a study coordinated with those of other donors to develop an effective institutional framework, including regionalization.	
	No culture of disclosure	Effectiveness of the Tunisian models enhanced by the gradual introduction of a performance-based management culture.	Redefining the jurisdiction of ministries with greater coordination among them	<b>Technical assistance and studies</b> Technical support to the National Institute of Statistics	
			A more efficient National Institute of Statistics	<b>Technical assistance and studies</b> Support for the implementation of one or more aspects of the BMO reform	

Improved public sector performance	The procurement system needs to be upgraded	Capacity building for the national procurement system is effective	<b>Technical assistance and studies</b> Support for an efficient and improved procurement framework	<b>Loan #A:</b> A set of coordinated actions reinforced by budgetary policy-based support
	State-owned enterprises often inefficient	Economic activity analysis and control tools are operational at the MPCi and Central Bank	<b>Technical assistance and studies</b> Support for the creation of a coherent macro sector database	
	Inadequately qualified human resources	The on-going public finance reform is extended to all Ministries	<b>Technical assistance and studies</b> Capacity building for the Ministry of Finance and Treasury officials in the regions	
		A sustainable growth model is established	Capacity building for Tunisia's Court of Auditors	
<b>A2. Supporting Economic Transformation</b>				
Integration into the global economy	Trade policy and restrictions on foreign investment in services	Capacity building for the Ministry of Trade and a trade policy review are launched	<b>Technical assistance and studies</b> Coordinated participation with other donors in the Ministry of Trade, reform and preparation of the new trade policy	<b>Loan #A:</b> A set of coordinated actions reinforced by budgetary policy support
	Improving conditions for financing the economy	Governance of the banking sector and bank liquidity undermined by CDL and the lack of organized money and bond markets	A model for the phased liberalization of services is adopted	
		Thorough diagnosis of the current supervision information system as well as supervision methods and procedures - Establishment of an action plan	Circular letters by the BCT	<b>Technical assistance and studies</b> Banking sector reform - Improving the operational capacity of banking supervision
		The investment code has been reformed and also promotes eco-investments	<b>Technical assistance and studies</b> For the review and simplification of the investment code	

Economic sophistication	Absence of endogenous mechanisms for developing innovation in enterprises	Innovative enterprises enjoy preferential financing mechanisms from the investment fund being set up	The innovative enterprise concept is defined in the instruments and procedures for access to the investment fund are adopted. Emphasis is laid on innovative green enterprises.	<b>Technical assistance and studies:</b> growth diagnostic	<b>Loan #C:</b> Support for the development of an investment fund for innovation
<b>Pillar II: Inclusion and Reduction of Regional and Local social disparities</b>					
<b>B 1. Access to basic infrastructure and Local social services</b>					
Initiate a regional development policy involving both the public, private sectors and civil society and implement regional decentralization	Overlapping jurisdictions of ministries and weak private sector presence in the regions	Regional autonomy in the choice of economic and social development programmes is enhanced	Reform on the separation of powers in the regions between the government services and elected officials	<b>Technical assistance and studies</b> To the Ministry of Regional Development and Ministry of Interior to support decentralization	<b>Loan #A:</b> A set of coordinated actions reinforced by budgetary policy support
Strengthen associative action in the preparation of development policies in disadvantaged areas	Limited capacity of associations especially in rural areas	Human capital is developed, and access to Local social services is improved.	Two regional development plans involving all stakeholders are being finalized	<b>Technical assistance and studies</b> In four priority Governorates to prepare inclusive regional development plans	
Improve the population's living conditions in disadvantaged urban areas and rural settlements.	Development costs in the rural settlements	Populations in disadvantaged regions supported by the programme enjoying basic public infrastructure	Sanitation and basic infrastructure upgrading programme in collaboration with AFD	<b>Technical assistance and studies</b> Professional organizations, Agriculture development groups (GDA) and Mutual Agricultural Services Organisations (SMSA).	
Develop transport infrastructure - Maintain infrastructure quality and strengthen nationwide coverage	Mobilization of financial resources	Rural roads development programme Railway infrastructure construction programmes are underway	50% of target (650 km) is achieved Programme for SNCFT coverage of South lines in progress	<b>Technical assistance and studies</b> 2050 Water Plan	<b>Loan #D:</b> Financing of sanitation networks and basic infrastructure in the regions  <b>Loan # E:</b> Financing road and/or rail development in the regions
<b>B 2. Job Creation and Employability</b>					
Strengthen the role of the private sector and particularly SMEs in the development of regions	Inadequate presence of businesses in disadvantaged regions	Regionalization reform and development of private sector financing mechanisms reduce regional disparities	Access by the population to financial services	To be determined according to needs  To be determined according to needs	<b>Loan # F:</b> Support for the development of micro-credit

Improve access to health services and ensure care quality	Inadequate health coverage and regional disparities	Health investment, training and reform programmes rebalance regional disparities	Access to care is improving in the Governorates	To be determined according to needs	<b>Loan # G:</b> All these actions coordinated and strengthened by a budgetary policy support or sector loan: Continuation and adaptation of the health programme; Continuation and adaptation of the education programme; Support to the training/integration component of employment programmes
Reduce unemployment among youth and women in the regions	Financing of public investment programmes	The employment situation is improved through qualification and integration mechanisms . Technological courses are introduced as from junior secondary school in the educational system and university reform is initiated.	Technical courses in colleges and vocational training programmes are established  20% of secondary and 10% of high schools have a complete technological course effective from the 2013 school year  Public programmes allow for alternate employment of a significant number of unemployed persons registered in the qualification programmes	To be determined according to needs  To be determined according to needs  To be determined according to needs	
Employability, job creation and economic sophistication	High structural unemployment due to low growth and a mismatch between labour supply and demand especially for graduates	Enterprises participate in job creation programmes through the generalization of work-linked training  Employment support programmes (AMAL) are accompanied by training and integration mechanisms  A restructuring plan for employment-intensive sectors (textile tourism) is prepared  The private sector develops in the regions and creates jobs  Upgrading of small- and medium-sized enterprises	The number of unemployed graduates drops to 160 000 in 2013  An industrial strategy is clearly defined  Private sector interventions are financed with clear impacts in regions  The programme is specified and launched	To be determined according to needs  To be determined according to needs  To be determined according to needs	<b>Loan # H:</b> Support to the private sector and restructuring of key industrial sectors and services - potentially through the support by way of BFPME
Strengthen the agricultural development potential		Agricultural jobs and income rise	Integrated agricultural development in the Gafsa and Gabes regions	To be determined according to needs	<b>Loan # I:</b> Financing of rural development programmes in the regions

**PROJECTED LOAN PROGRAMME AS CONSIDERED IN THE AFDB ROLLING PROGRAMME AND SUBJECT TO REVIEW DEPENDING ON THE EVOLUTION OF NEEDS AND RELEVANCE TO THE OBJECTIVES OF THE REVOLUTION**

Pillars	Project Themes	Specific Projects Identified	2011	2012	2013	
				(in UA million)		
	<b>Pillar I</b>	<b>Growth and Economic Transition</b>				
A1. Strengthening Governance.	Policy-based budgetary support			To be determined	To be determined	
	Support for restructuring the debt of state-owned companies					
A2. Supporting Economic Transformation	Policy-based budgetary support	Integration Support Programme II (PAI II)		250		
	Support for the development of an investment fund for innovation	Innovation Investment Fund		To be determined		
	<b>Pillar II: Inclusion and Reduction of Regional Disparities</b>					
B 1. Access to basic infrastructure and local social services	Policy-based budgetary support			To be determined	To be determined	
	Financing of sanitation networks and basic infrastructure in the regions	Wastewater Treatment Project	34			
	Financing road and/or rail development in the regions	Power Transmission Line and Railway Electrification Project			200	
		Road Project			To be determined	To be determined
	Support for the development of micro-credit			To be determined	To be determined	
	Budgetary policy support- or a sector loan for social development	Secondary Education Support Project (Phase III)			50	
B 2. Job creation and employability	Support to the private sector and restructuring	Project for the Construction of a Gas Transmission Pipeline in South Tunisia (non-sovereign)		100		
	Financing of rural development programmes in the regions	Integrated Agricultural Development Project		25		
		PDAl II				25
		PISEAU III			48	

## Annex 4

**ACTIVITIES IDENTIFIED DURING THE CSP THAT COULD POTENTIALLY BE CONSIDERED FOR AfDB FINANCING ACCORDING TO CHANGING NEEDS**

STUDIES		
Pillar I: Growth and Economic Transition	Employment	Study to assess the impact of economic and social recovery measures on beneficiary ailing enterprises to develop an effective enterprise assistance tool in the medium and long term.
		Studies on job creation by "green" companies in partnership with the GIZ
	Social Affairs	Prospective study for the efficient management of pension schemes
	Environment	Preparation of the Erosion Risk Map in Tunisia
	MPCI	Growth Diagnosis
Pillar II: Integration and Reduction of Regional Disparities	Regional development	Preparation of a regional development strategy

TECHNICAL ASSISTANCE		
Pillar I: Growth and Economic Transition	BFPME	Technical assistance for the preparation of a programme to enhance the competitiveness of small- and medium-sized enterprises
	Court of Auditors	Audit in a computerized environment: how to audit data bases (use of ACL, ACCESS..)
		Financial audit financial statements audit and analysis of balance sheets, accounting standards (IPSAS)
		Performance audit: risk analysis and audit of internal control systems, ISSAI standards
	ONAS	Training logistics support
		Development of a technical data reference framework to improve the control of the operating costs
STEG	Capacity building of ONAS for the preparation of project studies, bidding files and to act as prime contractor for works contracts	
	Capacity building of ONAS in the management of industrial waste treatment plants	
CSM	Training in banking techniques, financial engineering and financial projects design	
	Support for OECD/DAC evaluation of the procurement system	
Pillar II Inclusion and Reduction of Regional Disparities	Education	Support to stakeholder capacity building for ex post control of public contracts
		Building the management capacity of the education system in the regions
		Establishment of a global and integrated information system (study)
	Employment	Preparation of evaluation reference frameworks
		Upgrading and development of technical education
	Social affairs and regional development	Technical assistance designed to train staff of the Ministry in charge of planning and monitoring the actions for assisting ailing companies. TA will be in the form of training, study tours and seminars.
		Reform of regionalization and preparation of regional plans
		Training in regional and local planning
		Training for regional and local staff in the area of human rights
	Agriculture	Organisation of study tours in some French-speaking countries for acquaintance with community development "best practices"
Poverty reduction and socio-economic integration support programmes for persons with specific needs. Access to local social services.		
Transport	Support to associations working in favour of the disabled	
	Technical assistance to professional organizations, Agriculture Development Groups (GDA) and Mutual Agricultural Services Organisations (SMSA).	
Equipment	Technical assistance to improve transport safety	
	Establishment of a road database and development of planning and programming support tools	
ONAS	Establishment of artworks database and implementation of a heritage monitoring strategy.	
	Assistance for the operation of sanitation systems and logistical support for the design and development of a pilot remote management site in Greater Tunis	

INVESTMENT - EQUIPMENT		
Pillar I: Growth and Economic Transition	MPCI - Finance	Budget Support - Policy Support
	Equipment	<p>Development of the classified network (560 km of road). Strengthening of the network (600 km of road). Construction of structures. Enhancement of road maintenance Modernisation of national road No. 12 linking the governorates of Sousse and Kairouan Modernisation of regional Road No. 133 (National Highway No. 3 - Zaghouan) Modernisation of national road No. 4 (Km 0 -&gt; 65)</p>
Pillar II: Inclusion and Reduction of Regional Disparities	Agriculture	<p>Gabès Integrated Agricultural Development Project (Phase II). Gafsa Integrated Agricultural Development Project (Phase II).</p>
	Social affairs and regional development	Modernization of Strategic Roads.
	ONAS	<p>Fifth Neighbourhoods Sanitation and Rural Sanitation Project Programme to Upgrade Sanitation Facilities (currently being appraised by the AfDB) Establishment of a Wastewater Treatment Plant in the North Zone of Greater Tunis.</p>
	STEG	<p>Combined Cycle 400 MW, 2015 Kalaat El Andalous STEG Equipment Transport Programme (Twelfth Plan) Solar Power Stations (Tunisian Solar Plan): PV, CSP</p>
	SNCF	Consolidation of South Network Infrastructure
		Consolidation of the Tunis-Kasserine Line Infrastructure
		Signage and Telecommunications on the Tunis-Kasserine Liner Loop: M'Saken - Ghraiba
		New Enfidha-Kairouan Line
		New Gabes-Mednine Line
		Phosphate Transport Equipment
Environment	Equipment of 60 railway crossing points (between railway and road)	
	Doubling the line-Moknine Mahdia (25Km).	
	Expansion of telecommunications networks through optical fibers technology	
	Port Infrastructure Maintenance	
	Desert Encroachment Control in 4 Governorates in the South	
	Prevention and Protection of Forests against Fire	
	Development of the El Ouara Haul (Mednine and Tataouine)	
Construction of a Slip Way and Maintenance Area for "Ships in the Sfax Port"		
Renewal and Maintenance of Ship Lifts		
Securing of Fishing Ports		
Integrated Management of National Parks in Tunisia		



**COMBINED CSP 2007-2011 COMPLETION AND PORTFOLIO PERFORMANCE  
REVIEW REPORT  
EXPERIENCE AND LESSONS LEARNED PRELIMINARY  
CONCLUSIONS AND RECOMMENDATIONS**

<b>Strategy</b>	Adopting a <i>flexible strategy</i> that can adapt to changes in the country context to take into account the impact of external and internal shocks on the country's macroeconomic balance and stability.
	Allocating <i>resources specific to the private sector</i> whose revitalization warrants increased Bank support in the coming years.
	Giving priority to the " <b>Sector Programme</b> " <i>approach</i> instead of the "project" approach to reduce management costs, enhancing Bank dialogue on strategic issues and sector reforms with the Government and other development partners, and improving aid effectiveness.
	Strengthening the <i>participatory approach</i> in CSP preparation through greater involvement of civil society, which will play a more active role in the new context of democratic transition in the country.
	Improved targeting of CSP objectives and choosing <i>fewer measurable outcome indicators</i> for the CSP pillars.
<b>Portfolio</b>	<b>Most suitable strategy to address the challenges of the New Tunisia:</b> The strategy adopted supported macroeconomic and sector priorities of Tunisia's Eleventh Plan through the three CSP pillars. These pillars are still valid in the context of Tunisia after the January 2011 Revolution, even though it will be necessary in the future programme to focus on governance, regional development and employment issues which are the short- and medium-term challenges of democratic Tunisia. Tunisia's ability to quickly address these challenges will guarantee stability and economic recovery for sustainable development in the years to come, in which the private sector will be the main purveyor of wealth and jobs. The Bank will contribute in this transitional phase by continuing its support for reforms in good governance, infrastructure and productive sectors, and human capital development by reforming the education and training system in relation to real market needs.
	<b>Economic and sector work and technical assistance:</b> Bank support from technical assistance funds will also be recommended in this transitional phase expected to pave the way for major future reforms. However, the delay in implementing on-going studies on account of cumbersome national procedures warrants more diligence.
	<b>Improving the Bank's service:</b> The authorities have often raised the issue of the Bank's slow responses to some requests as well as non-objection and disbursement requests. Portfolio dialogue with the authorities has consistently sought a higher performance level and both parties have endeavoured to minimize constraints and simplify procurement and disbursement procedures. The introduction of ex post contracts review (for limited amounts) and the special account for payment of such contracts since 2009 has not completely addressed the problem, owing to continuing difficulties of collection and capture of contracts in SAP to feed the special projects account. Considering the importance of Tunisia's portfolio and its relation as host country, the Bank has an obligation to offer the country services at least equivalent to those offered to other similarly important countries hosting Bank offices (Morocco, Egypt).

## Annex 6

## TUNISIA'S PORTFOLIO (UA) (DECEMBER 2011)

	Dept	Name	Fin.	Closure	Approval	Amount	Disbursed	Age (yrs)	2012-2013 Pillars
<b>Transport</b>									
Loans	OITC2	Modernization of Railway Infrastructure - 2	AfDB	31-Dec-11	3-Dec-03	65.31	87.94%	8.12	B2
	OITC2	Classified Network Development - IV	AfDB	31-Dec-11	24-Nov-04	141.81	100.00%	7.13	B2
	OITC2	Road Project - V	AfDB	31-Dec-13	11-Jun-08	149.83	63.10%	3.58	B2
	OITC2	Road Project - VI	AfDB	31-Dec-16	15-Sep-10	202.83	13.98%	1.31	B2
	OITC2	Gabes - Ras Jedir Highway	AfDB	TBC	21-Jun-11	118.04	0.00%	0.54	B2
<b>Energy</b>									
Loans	ONEC1	Rehabilitation of Elect. Distribution Networks	AfDB	31-Dec-11	10-Dec-03	66.30	94.49%	8.10	B2
	ONEC1	Rehabilitation and Restructuring Project	AfDB	31-Dec-13	2-Sep-09	40.88	38.70%	2.35	B2
<b>Private Sector</b>									
Loans	OPSM	APEX SME Line of Credit (sovereign guarantee)	AfDB	TBC	13-Jul-11	32.11	0.00%	0.48	A2-B2
	OPSM3	Enfidha Airport	AfDB	31-Dec-10	14-Jan-09	58.39	100.00%	2.98	A2-B2
	OPSM3	Enfidha Airport (conditional tranche)	AfDB	31-Dec-10	14-Jan-09	1.77	100.00%	2.98	A2-B2
	OPSM3	ETAP	AfDB	31-Dec-10	17-Mar-10	96.32	100.00%	1.81	A2-B2
	OPSM5	Line of Credit to BH	AfDB	28-Feb-06	27-Feb-02	24.49	100.00%	9.88	A2-B2
	OPSM5	Line of Credit to Amen Bank	AfDB	29-May-04	13-Mar-02	17.19	100.00%	9.85	A2-B2
	OPSM5	Line of Credit to Banque de Tunisie	AfDB	14-Nov-04	10-Jul-02	25.78	100.00%	9.52	A2-B2
	OPSM5	BTEI-Fourth Line of Credit	AfDB	30-Apr-07	20-Dec-02	34.37	100.00%	9.07	A2-B2
TA Grants	ORNA	Evaluation Study of the BTS Micro-credit System	MIC	31-Dec-11	6-Jan-10	0.14	0.00%	2.00	A2-B2
<b>Agriculture and Irrigation</b>									
Loans	OSAN1	Kairouan Integrated Agric. Dev. Project (PDAI)	AfDB	31-Dec-13	29-Mar-06	15.30	56.35%	5.79	B2
	OSAN1	PISEAU II	AfDB	31-Dec-14	11-Dec-08	19.69	45.78%	3.07	B2
TA Grants	OSAN1	GDA Support	MIC	31-Dec-14	20-Oct-09	0.59	14.86%	2.21	B2
<b>Governance and Reform</b>									
TA Grants	OSGE2	Trade Enhancement Preparatory Study	MIC	31-Dec-12	24-Sep-10	0.32	0.00%	1.28	A1
	ORNA	ITCEQ Support	MIC	31-Dec-11	3-Dec-09	0.20	90.03%	2.09	A1-A2
	ESTA2	Statistical Capacity Building Program II (SCB II)	MIC	31-Dec-13	30-Mar-11	0.49	0.00%	0.77	A1

Social									
Loans	OSHD	Budget Support	AfDB	31-Dec-11	30-May-11	315.20	100.00%	0.80	B1
	OSHD2	Secondary Education Support Project II	AfDB	31-Dec-13	28-Sep-05	51.39	83.85%	6.29	B1
TA Grants	OSHD2	Study on the Development of Cultural Industries	MIC	31-Dec-13	15-Nov-10	0.27	0.00%	1.14	A2
	OSHD3	Export of Health Services	MIC	31-Dec-11	9-Oct-09	0.53	0.00%	2.24	A2
	OSHD3	Study on Emerging and Re-emerging Diseases	MIC	31-Dec-13	3-Nov-09	0.58	100.00%	2.18	B1
Grants	ORNA	Humanitarian Assistance on the Libyan Border	SRF	31-Dec-11	11-Mar-11	0.64	100.00%	0.82	B1
Water and Sanitation									
TA Grants	OWAS2	Study on Zaarat Seawater Desalination	MIC	31-Dec-12	5-Aug-09	0.61	0.00%	2.42	B1-B2
	OWAS2	Increasing DWS Rate - Bizerte and Beja	MIC	31-Dec-12	28-Sep-09	0.46	0.00%	2.27	B1-B2
	OWAS2	PCI Study on Greater Tunis	MIC	31-Dec-12	6-Oct-09	0.58	0.00%	2.25	B1-B2
	OWAS2	Study on Tunisia's Sanitation Strategy	MIC	31-Dec-12	4-Dec-09	0.57	0.00%	2.09	B1-B2
	AWF	SINEAU	AWF	31-Dec-14	22-Dec-09	1.73	33.98%	2.04	B1-B2
	AWF	2050 Water Vision and Strategy	AWF	TBC	12-Jan-11	1.02	0.00%	0.98	B1-B2
Loans	OWAS2	Rural Drinking Water Supply Project	AfDB	31-Dec-12	12-Oct-11	81.49	0.00%	0.23	B1-B2
<b>Total</b>						<b>1,574.10</b>	<b>46.78%</b>	<b>3.45</b>	

## Annex 7

**ECONOMIC AND SECTOR WORK CONDUCTED AND/OR BEING CONDUCTED  
BY ORNA (SEPTEMBER 2011)**

Country Region	Name	Status
Tunisia	The Revolution in Tunisia: Economic Challenges and Prospects	Conducted in 2011
Northern Region	North Africa Revisited in view of Recent Developments: Outlook and Development Challenges: Operational Response and Strategic Rethink	Conducted in 2011
Tunisia	Situation of the Tunisian Banking Sector in the Aftermath of the Revolution - Preliminary Assessment	Conducted in 2011
Tunisia	Impact of the Libya's Conflict on the Tunisian Economy: A Preliminary Assessment	Conducted in 2011
Northern Region	Tackling Youth Unemployment in the Maghreb	Conducted in 2011
Northern Region	Poverty, Inequality and Polarization in Tunisia, Morocco and Mauritania	Conducted in 2011
Northern Region	BRICs in North Africa: Changing the Name of the Game?	Conducted in 2011
Northern Region	Islamic Banking and Finance in North Africa	Conducted in 2011
Northern Region	Chinese Investment and Job Creation in North Africa	In progress
Northern Region	Agricultural use of Groundwater and Management Initiatives in the Maghreb: Challenges and Opportunities for Sustainable Aquifer Exploitation	In progress
Northern Region	North African Investment in West Africa	In progress
Tunisia	Distortions to Incentives and Agricultural Policy in Tunisia	In progress
Northern Region	The African Development Bank Group in North Africa 2011 - Towards a more Inclusive Growth	Conducted in 2011
Northern Region	A comparative Study between the Competitiveness of North African Economies and South Korea	In progress
Northern Region	Regional Integration in North Africa	In progress
Libya	Libya: Post-war Challenges	Conducted in 2011
Tunisia	Growth Diagnostic	2012

## Annex 8

## PUBLIC FINANCE AND PROCUREMENT MANAGEMENT SYSTEMS: BANK'S RISKS AND FIDUCIARY STRATEGY

### 1. Introduction

As part of CSP preparation in September 2011 the Bank's Department of Fiduciary Services (ORPF) conducted an evaluation of the fiduciary framework and risks in Tunisia, in conformity with the policy brief on the fiduciary risk management framework under AfDB Policy Support operations (March 2011). This evaluation, based on the latest diagnoses, and additional interviews with key public finance management institutions (Ministry of Finance with the participation of the DGRE and CGAB, Directorate General of Public Accounting and Revenue (GRCPR) the Higher Public Procurement Commission (CSM)), the Court of Auditors (CDC) as well as implementation of the previous CSP, formed the basis for analysing the national public financial management system and provisions for its use, proposed below. This Annex lays down the guidelines to be taken into account in the financial management and procurement arrangements for projects during the period of Tunisia's CSP 2012-2013.

### 2. Overview of fiduciary risks and mitigation:

**Financial Management:** Overall, fiduciary risk is deemed moderate, based on the latest public finances management assessment

and perceived corruption. However, this risk can be mitigated by: (i) the will to initiate fundamental external audit reforms in accordance with the new guidelines provided by Tunisia's Court of Auditors; (ii) favourable prospects for continuing and completing reform projects undertaken to improve fiscal management, as set out in the Economic and Social Development Strategy 2012-2016; (iii) the will and efforts of TFPs and government to quickly achieve a lasting and satisfactory consensus for the external audit of externally financed projects and provide the Court of Auditors with the wherewithal to fulfil this mandate; and (iv) lastly, the Tunisian Government may consider the suitability of establishing a unified planning, coordination and monitoring framework for public financial management reforms, in order to ensure synergy and better dissemination.

**Procurement:** Tunisia's legal and regulatory procurement framework is governed by the Decree of 17 December 2002 (and several subsequent instruments, the last of which dates back to May 2011). It was evaluated in 2011 by the Bank which concluded that the risk was moderate. This evaluation made it possible, as concerns NCB, to assess the overall compatibility of national procedures with the Bank's fiduciary obligations, except for some identified divergences. However, the

procurement system as a whole could not be independently evaluated using internationally accepted tools (OECD/DAC methodology) which would have enabled its comparison with agreed standards. In fact, the last CPAR conducted in 2004 was not validated by the Tunisian party to allow implementation of the resulting action plan. Consequently, the system has not undergone structural reforms that would have allowed for qualitative progress. The major reforms needed to bring the Tunisian system up to international standards will focus mainly on: (i) increasing efficiency in order to reduce delays in implementing procurement cycles; (ii) enhancing transparency at all stages of the bidding process; and (iii) the need for greater integrity and user confidence in the system.

### **3. Bank's Fiduciary Strategy in Tunisia for the CSPI 2012-2013 Period**

#### **3.1 Level of recommended use of the Country Public Finance Management System**

In keeping with the provisions of the Paris Declaration and Accra Forum, the Bank's decision to use the country public finance management system was discussed based on the Tunisia's evaluation system, the Bank's guidelines, practices and risk tolerances, national preferences and other

factors such as perceived governance and corruption level. It emerged from this review that there is a moderate fiduciary risk which allows the Bank to maintain an approach based primarily on country procedures and systems, while continuing its support for the system's reform. The approach may nevertheless be adapted to the specificities of each operation and revised during the period. Thus:

**Budget support entirely using the public spending system will continue, subject to the implementation of recommended medium-term mitigation measures, namely:**

(i) initiation of a thorough external audit reform; (ii) completion of fiscal system and government procurement reforms; and (iii) establishment of a unified and effective framework for planning, coordination and monitoring of public finance management reforms. The use of budget support resources will be checked through review of the Audited Budget bill by the Court of Auditors, which will be published within the statutory timeframe. The Bank reserves the right to request any audit of financial support inflows and/or the performance of programmes it shall deem necessary.

For the most part, public investment projects/programmes will use existing public system implementation procedures and control systems, albeit with restrictions on the external audit. Accordingly, besides the systematic inclusion of external financing

in the State budget, preference will be given to the use of existing resources and capacity in public entities, the opening of project accounts at the Central Bank of Tunisia, disbursements consistent both with the Bank's relevant rules and public spending authorization and control rules, internal audit of projects by mandated public entities (CDP, Ministerial Inspection teams, CGF, ...), systematic accounting in the ADEB system (budget execution) and in the payers' local accounting system (by ministry or implementing entity). Where there are limitations in the existing local public system, separate accounting will be required to come up with accounts by financing, component and financial reports necessary for project management and Bank information. Each evaluation will propose appropriate measures to mitigate specific fiduciary risks identified and justify, as required, the need for parallel implementing and/or financial management arrangements.

**In the event of recourse to independently managed executing agencies that already have a private external auditor for the entity, it will be preferable to propose the same auditor for project accounts, provided that the latter is acceptable to the Bank.**

Continued support for further public finance management reforms is the Bank's key strategy in Tunisia. This may be expressed, on the one hand, through enhanced dialogue

with the authorities in improved consultation with other TFPs and, on the other hand, through assistance by building the capacity of the Court of Auditors in implementing one or more components of the Budget Management by Objectives and public procurement reforms, and also in overall external audit reform.

### **3.2 Level of Recommended Use of the Country Public Procurement System**

**In a bid to achieve harmonization, the Bank will continue to implement its strategy to use Tunisia's country system.** This strategy will be consistent with the Bank's chosen implementation approach in its RMCs. It is characterized by two distinct phases as follows: (a) Phase 1: strengthening the use of country procedures in NCB planned under the Bank's operations; and (b) Phase 2: using the country procurement system in its entirety for ICB with its legal and regulatory framework, institutional framework; its procurement practices and control and redress mechanism.

**Under Phase 1 of its strategy to strengthen the use of country procedures, the Bank will soon begin discussions with the Tunisian Government to satisfactorily address the major differences contained in its regulatory framework.** Once an agreement is reached on the report submitted to the Tunisian party in June 2011, Tunisian procedures will be

used for all Bank-financed NCB during the period covered by this CSP.

Phase 2 of the Bank's initiative is expected in the medium/long term and will consist in using the country system in its entirety (and no longer country procedures only) for all procurement, including ICB. This stage, which must be preceded by an evaluation of the system's performance according to OECD/DAC methodology, will be effective following the implementation of activities planned in the resulting action plan. In this connection, the Tunisian Government has undertaken, as part of the budget support operation (PAISTE) financed by the Bank in 2011, to conduct a structural and deeper evaluation of the entire

country procurement system using the OECD/DAC evaluation methodology. In so doing, Tunisia will not only compare with other countries evaluated using the same tool but also identify areas needing improvements that will be the subject of an action plan to be implemented.

During the period of this CSP, the Bank will support Tunisia to take up the challenges identified and mentioned earlier. In specific terms, the Bank's intervention in relation to procurement will focus on the following aspects: (i) support for the proper implementation of interim transparency and efficiency measures proposed in May 2011 under PAISTE; and (ii) support for system evaluation using the OECD/DAC methodology.



TABLE OF DETAILED ANALYSIS OF COUNTRY RISK BY PILLAR

Pillars	Indicators	Risk Factors	Initial Risk	Mitigation Measures	Residual Risk
1- Budget: Preparation, Control, Implementation	<ul style="list-style-type: none"> <li>PEFA 2010, interviews with Min. Finance, DGRE, CGABE, DGCRP</li> <li>► Credibility PI 1-4</li> <li>► Comprehensiveness PI 5-7</li> <li>► Transparency PI 8-10</li> <li>► Policy-based budgeting PI 11-12</li> <li>► Effectiveness (predictability and control in budget execution) PI 13-21</li> </ul>	<ul style="list-style-type: none"> <li>► Absence of multi-year budget preparation</li> <li>► Non-functional budget classification</li> <li>► High number of internal control bodies and missions, risk of duplication or conflict</li> </ul>	Weak	<p><b>i. On-going or planned measures</b></p> <ul style="list-style-type: none"> <li>► Major project to set up a Budget Management by Objectives (BMO) including:               <ul style="list-style-type: none"> <li>- Budget reform, of which multi-year budgeting and results-based management</li> <li>- Review of budgetary nomenclature</li> <li>- Reform of the system of controls and accountability of authorizing officers including performance audits</li> </ul> </li> <li>- Reform of accounting system to move to IPSAS standards and accrual accounting</li> <li>- Modernisation of information system. The BMO project is delayed due to the current transition period, re-launch expected for 2012</li> </ul> <p><b>ii. Other Bank Recommendations</b></p> <ul style="list-style-type: none"> <li>► The Government should carry through the BMO reform that will institute multi-annual budgeting, functional budget classification and help to rationalize internal audits organs</li> </ul>	Weak
Financial Information and Audit	<ul style="list-style-type: none"> <li>PEFA 2010, interview with DGCRP and the Court of Auditors</li> <li>► Comprehensiveness</li> <li>► Effectiveness</li> <li>► Quality</li> <li>► Timeliness PI 26-26</li> <li>► Scrutiny</li> </ul>	<ul style="list-style-type: none"> <li>► Reliable management accounting: Risk relating to comprehensiveness and relevance of financial information</li> <li>► Tabling the bill on the Court of Auditors will still take a long time</li> <li>► Previous reports of the Court of Auditors were published in 2011, but their future publication is not yet guaranteed by legal instruments</li> <li>► Insufficient external scrutiny but in progress Tunisia's Court of Auditors</li> <li>► Limited content review by Parliament</li> <li>► Audit of external financing provided by the Government to CGF that does not meet all of INTOSAI's requirements; there is still an audit risk on the operations controlled solely by the CGF.</li> </ul>	Moderate	<p><b>i. On-going or planned measures</b></p> <ul style="list-style-type: none"> <li>► Project to reform the accounting system under the MBO to move to accrual accounting and update the accounting standards to IPSAS standards. Design delayed in 2011</li> <li>► Timeframe for submission of accounts by DGCRP has slightly improved. 1.5 years for 2009. The legal timeframe could be reduced within the framework of BMO.</li> <li>► Constant evolution of the audit coverage of the CDC, with risk-based approach in the sampling of units. Capacity building plan submitted for the year</li> <li>- New guidelines expressed by the Court of Auditors to be translated into reform project:               <ul style="list-style-type: none"> <li>- Constitutional and legal consolidation - Organic and financial autonomy</li> </ul> </li> </ul> <p>vis-à-vis the executive - Strengthening the</p>	

	<p>independence of members and functional independence - Suppression of presidential discretion to publish in the organic law - Establishment of review and monitoring sessions by the Parliament - wider powers.</p> <p><b>ii. Other Bank Recommendations</b></p> <ul style="list-style-type: none"> <li>▶ The Government should prioritize reform of the external audit system, to increase the autonomy guarantee of the Court of Auditors, improve audit coverage and means and monitoring of reports by Parliament.</li> <li>▶ In parallel, dialogue between donors and the authorities on the external audit of externally - financed projects should help find solutions to provide the Court of Auditors with the wherewithal to fulfil this mandate.</li> <li>▶ The Government should carry through the MBO reform to culminate in a modern accrual accounting system consistent with international standards and significantly improve the public accountability timeframe.</li> </ul> <p style="text-align: right;"><b>Weak</b></p>	<p><b>Procurement</b></p> <p>Evaluation report of national procurement procedures for LCB for projects financed by the Bank; CPAR 2004, PEFA 2010; Interviews with CSM</p> <ul style="list-style-type: none"> <li>▶ Prohibition of access (or tough requirements) to bids for foreign companies</li> <li>▶ Unregulated participation of state-owned enterprises in bidding</li> <li>▶ Bids opening mechanism with provisions affecting transparency</li> <li>▶ Possibility of amending bid content after their opening</li> <li>▶ Possibility of using evaluation criteria specific to domestic firms: (Fairness in processing)</li> <li>▶ Current redress and complaints handling mechanism non-independent (subject to political control) and affected by conflict of interest (COSEM and CSM are under the same authority)</li> </ul> <p style="text-align: center;"><b>Moderate</b></p> <p><b>i. On-going or planned measures</b></p> <ul style="list-style-type: none"> <li>▶ The Bank and the government should engage in dialogue to adequately address divergences, inconsistent with the Bank's fiduciary obligations and contained in the report on the assessment of national bidding procedures</li> <li>▶ The government should take actions to support the successful implementation of interim measures under review for the regulation of procurement made in May 2011</li> <li>ii. As it has so undertaken, the government should proceed with evaluating the national procurement system according to the OECD/DAC methodology</li> </ul> <p style="text-align: right;"><b>Weak</b></p>
--	--	---

3- Procurement - This pillar will be the subject of a separate evaluation by ORPF.1					
Corruption	Transparency International, MI FI interview	<ul style="list-style-type: none"> <li>➤ Corruption Perception Index, 4.3/10</li> <li>➤ Inadequate prevention and control measures</li> </ul>	Moderate	<p><b>i. On-going or planned measures</b></p> <ul style="list-style-type: none"> <li>➤ A genuine and permanent anti-corruption framework will be put in place after the transition.</li> </ul>	Weak
5- Adequate Reform Plan and Monitoring	PEFA 2010, interviews with Min. Finance	<ul style="list-style-type: none"> <li>➤ Lack of a unified framework for planning, coordination and monitoring of public finance management reforms: Risk of low synergy and inadequate sequencing and dissemination of reforms and monitoring of their progress (also noted by the PEFA 2010)</li> </ul>	Moderate	<p><b>ii. On-going or planned measures</b></p> <ul style="list-style-type: none"> <li>➤ Point brought to the attention of the Finance Ministry</li> </ul> <p><b>iii. Other Bank Recommendations</b></p> <ul style="list-style-type: none"> <li>➤ The Government should consider empowering an organ of the Ministry of finance to: (i) Prepare a unified and sequenced strategy and action plan on the public finance management system, in consultation with the Departments of the Ministry of Finance, sector ministries and audit bodies; (ii) Coordinate and report on implementation progress; and (iii) Establish a framework for dialogue and partnership with donors on the implementation of this strategy.</li> </ul>	Weak
Overall fiduciary risk assessment			Moderate		Weak

## Annex 9

## TUNISIA'S KEY MACRO-ECONOMIC INDICATORS

Indicators	Unit	2000	2006	2007	2008	2009	2010	2011 (e)
<b>National Accounts</b>								
GNI at Current Prices	Million US \$	19 763	30 313	32 320	35 999	39 648	42 118	...
GNI per Capita	US\$	2 090	3 026	3 190	3 513	3 825	4 019	...
GDP at Current Prices	Million US \$	19 443.5	34 376.8	38 922.9	44 878.5	43 523.0	45 082.4	47 935.6
GDP at 2000 Constant prices	Million US \$	19 443.5	25 490.2	27 107.4	28 358.7	29 223.6	30 088.3	30 104.1
Real GDP Growth Rate	%	4.7	5.4	6.3	4.6	3.0	3.0	0.1
Real per Capita GDP Growth Rate	%	3.7	4.2	5.2	3.4	1.9	1.8	-1.0
Gross Domestic Investment	% GDP	27.3	23.4	23.8	25.9	24.8	28.0	26.3
Public Investment	% GDP	4.4	4.7	4.7	5.0	4.9	5.5	5.6
Private Investment	% GDP	22.9	18.8	19.2	20.9	19.9	22.5	20.7
Gross National Savings	% GDP	22.3	21.6	21.5	22.1	21.9	21.6	19.6
<b>Prices and Money</b>								
Inflation (CPI)	%	3.0	4.5	3.1	5.1	3.5	4.4	3.3
Exchange Rate (Annual Average)	local currency/US\$	1.4	1.3	1.3	1.2	1.4	1.4	1.4
Monetary Growth (M2)	%	14.1	11.6	12.4	14.8	12.5	11.4	...
Money and Quasi Money as % of GDP	%	55.3	54.7	56.4	58.4	61.8	62.7	...
<b>Government Finance</b>								
Total Revenue and Grants	% GDP	25.4	21.3	21.9	24.2	23.4	23.5	23.5
Total Expenditure and Net Lending	% GDP	27.9	24.3	24.8	25.2	26.1	26.2	27.9
Overall Deficit (-) / Surplus (+)	% GDP	-2.4	-2.9	-2.9	-1.0	-2.7	-2.8	-4.4
<b>External Sector</b>								
Exports Volume Growth (Goods)	%	7.3	6.3	17.1	5.3	-9.7	4.2	2.5
Imports Volume Growth (Goods)	%	6.5	5.1	10.9	7.2	1.0	-1.2	-7.1
Terms of Trade Growth	%	-2.2	-3.6	-3.2	0.2	7.6	-13.2	-4.8
Current Account Balance	Million US \$	-821.2	-619.4	-916.9	-1 711.9	-1 233.8	-2 146.2	-2 429.6
Current Account Balance	% GDP	-4.2	-1.8	-2.4	-3.8	-2.8	-4.8	-5.1
External Reserves	months of imports	1.8	3.2	2.9	2.6	4.0	3.1	...
<b>Debt and Financial Flows</b>								
Debt Service	% exports	55.7	57.5	45.1	40.1	55.3	54.5	55.9
External Debt	% GDP	58.5	53.9	51.8	45.9	49.4	47.7	50.5
Net Total Financial Flows	Million US \$	659.3	29.2	1 465.3	1 563.1	785.8	...	...
Net Official Development Assistance	Million US \$	221.5	431.3	321.2	331.6	473.9	...	...
Net Foreign Direct Investment	Million US \$	779.3	3 307.9	1 616.1	2 758.4	1 687.6	1 512.5	...

Real GDP Growth Rate, 2000-2011

Inflation (CPI), 2000-2011

Current Account Balance as % of GDP, 2000-2011

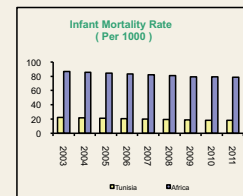
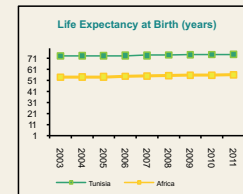
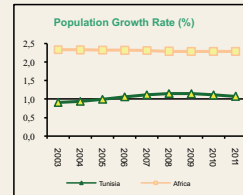
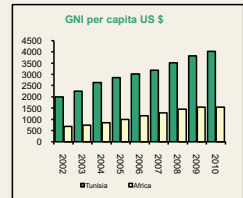
Source: ADB Statistics Department IMF: World Economic Outlook, September 2011 and International Financial statistics, September 2011; ADB Statistics Department: Development DATA Portal Database, October 2011. United nations: OECD, Reporting System Division.

Notes: ... Data not Available

(e) Estimations

## TUNISIA'S KEY COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Tunisia	Africa	Developing Countries	Developed Countries
<b>Basic Indicators</b>					
Area ('000 Km <sup>2</sup> )		164	30 323	80 976	54 658
Total Population (millions)	2011	10.6	1 044.3	5 732	1 123
Urban Population (% of Total)	2010	66.6	39.9	45.1	77.3
Population Density (per Km <sup>2</sup> )	2011	64.8	34.0	59.9	33.2
GNI per Capita (US \$)	2010	4 019	1 565	3 304	38 657
Labor Force Participation - Total (%)	2011	36.9	40.1	65.6	60.7
Labor Force Participation - Female (%)	2011	27.0	41.0	51.7	52.2
Gender-Related Development Index Value	2007	0.752	0.433	0.694	0.911
Human Develop. Index (Rank among 187 countries)	2011	94	n.a	n.a	n.a
Popul. Living Below \$ 1 a Day (% of Population)	2007-09	...	42.3	25.2	...
<b>Demographic Indicators</b>					
Population Growth Rate - Total (%)	2011	1.1	2.3	1.3	0.6
Population Growth Rate - Urban (%)	2010	1.6	3.4	2.4	1.0
Population < 15 years (%)	2011	157.4	40.3	29.0	17.5
Population >= 65 years (%)	2011	7.0	3.8	6.0	15.4
Dependency Ratio (%)	2011	42.1	77.6	55.4	49.2
Sex Ratio (per 100 female)	2011	99.9	99.5	93.5	94.8
Female Population 15-49 years (% of total population)	2011	28.5	24.4	49.4	50.6
Life Expectancy at Birth - Total (years)	2011	74.5	56.0	67.1	79.8
Life Expectancy at Birth - Female (years)	2011	74.9	57.1	69.1	82.7
Crude Birth Rate (per 1,000)	2011	16.1	34.2	21.4	11.8
Crude Death Rate (per 1,000)	2011	6.0	12.6	8.2	8.4
Infant Mortality Rate (per 1,000)	2011	18.0	78.6	46.9	5.8
Child Mortality Rate (per 1,000)	2011	20.2	127.2	66.5	6.9
Total Fertility Rate (per woman)	2011	1.8	4.4	2.7	1.7
Maternal Mortality Rate (per 100,000)	2008	60.0	530.2	290.0	15.2
Women Using Contraception (%)	2007-09	60.2	...	61.0	...
<b>Health &amp; Nutrition Indicators</b>					
Physicians (per 100,000 people)	2009	119.0	58.3	109.5	286.0
Nurses (per 100,000 people)*	2009	336.4	113.3	204.0	786.5
Births attended by Trained Health Personnel (%)	2007-09	...	50.2	64.1	...
Access to Safe Water (% of Population)	2008	94.0	64.5	84.3	99.6
Access to Health Services (% of Population)	2007-09	...	65.4	80.0	100.0
Access to Sanitation (% of Population)	2008	85.0	41.0	53.6	99.5
Percent of Adults (aged 15-49) Living with HIV/AIDS	2007	0.1	4.9	0.9	0.3
Incidence of Tuberculosis (per 100,000)	2010	25.0	294.9	161.0	14.0
Child Immunization Against Tuberculosis (%)	2010	98.0	85.3	81.0	95.1
Child Immunization Against Measles (%)	2010	97.0	77.9	80.7	93.0
Underweight Children (% of children under 5 years)	2007-09	3.3	30.9	22.4	...
Daily Calorie Supply per Capita	2007	3 326	2 465	2 675	3 285
Public Expenditure on Health (as % of GDP)	2008	6.0	5.7	2.9	7.4
<b>Education Indicators</b>					
Gross Enrolment Ratio (%)					
Primary School - Total	2009	108.8	100.4	107.2	101.3
Primary School - Female	2009	106.5	90.0	109.2	101.1
Secondary School - Total	2009	90.5	37.7	62.9	100.1
Secondary School - Female	2009	93.1	33.7	61.3	99.6
Primary School Female Teaching Staff (% of Total)	2008	54.1	41.4	60.5	81.4
Adult literacy Rate - Total (%)	2008	77.6	65.1	80.3	98.4
Adult literacy Rate - Male (%)	2008	86.4	74.3	86.0	98.7
Adult literacy Rate - Female (%)	2008	71.0	56.2	74.8	98.1
Percentage of GDP Spent on Education	2007	7.1	4.7	3.8	5.0
<b>Environmental Indicators</b>					
Land Use (Arable Land as % of Total Land Area)	2008	18.2	7.8	10.6	10.9
Annual Rate of Deforestation (%)	2007-09	...	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2007-09	...	10.9	...	...
Per Capita CO2 Emissions (metric tons)	2009	2.2	1.1	2.9	12.5



Source: ADB Statistics Department Databases; World Bank: World Development Indicators; last update : Octobre 2011  
NAIDS; UNSD; WHO; UNICEF; WRI; UNDP; Country Reports.

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

## Annex 11

**TUNISIA'S KEY COMPARATIVE SOCIO-ECONOMIC INDICATORS****Governance, Business Environment and Competitiveness****Governance/Business Environment Context****Table 1: Doing Business in 2009 and 2010**

Country	2009 Rank	2010 Rank	Status Improvement (▼)
<b>Central Africa</b>			
Burundi	45	49	▲
Cent. Afr. Rep.	51	50	▼
Cameroon	40	39	▼
Congo	47	45	▼
Gabon	31	31	▶
Equat. Guinea	39	37	▼
Rwanda	5	5	▶
São T. & Príncipe	48	46	▲
Chad	46	51	▼
Congo (DRC)	50	43	▼
<b>East Africa</b>			
Burundi	45	49	▲
Comoros	33	34	▲
Djibouti	34	33	▼
Eritrea	44	48	▲
Ethiopia	11	12	▲
Kenya	9	11	▲
Rwanda	5	5	▶
Sudan	28	29	▲
Somalia	-	-	-
Seychelles	12	10	▼
Tanzania	18	17	▼
Uganda	13	15	▲
<b>North Africa</b>			
Algeria	22	20	▼
Egypt	10	9	▼
Libya	-	-	-
Morocco	16	13	▼
Mauritania	36	38	▲
Sudan	28	29	▲
Tunisia	6	4	▼

Source: AfDB Statistics Department using data from Doing Business, WB

Table 1 (Cont'd): Doing Business in 2009 and 2010

Country	2009 Rank	2010 Rank	Status Improvement (▼)
<b>Southern Africa</b>			
Angola	38	36	▼
Botswana	3	3	▶
Lesotho	17	22	▲
Madagascar	20	23	▲
Mozambique	21	16	▼
Mauritius	1	1	▶
Malawi	19	19	▶
Namibia	4	7	▲
Swaziland	14	14	▶
South Africa	2	2	▶
Zambia	7	8	▲
Zimbabwe	32	32	▶
<b>West Africa</b>			
Benin	41	41	▶
Burkina Faso	25	26	▲
Côte d'Ivoire	37	40	▲
Cape Verde	24	18	▼
Ghana	8	6	▼
Guinea	42	47	▲
Gambia	23	25	▲
Guinea Bissau	49	44	▼
Liberia	27	30	▲
Mali	29	28	▼
Niger	43	42	▼
Nigeria	15	21	▲
Senegal	30	27	▼
Sierra Leone	26	24	▼
São T. & Príncipe	48	46	▼
Togo	35	35	▶

Source: AfDB Statistics Department using data from Doing Business, WB

**Table 2: Doing Business in 2009 and 2010 (Rank)**

Item	2009 Rank	2010 Rank	Status Improvement (▼)
Ease of Doing Business	6	4	▼
Starting a business	5	4	▼
Dealing with licenses	21	20	▼
Registering property	6	6	►
Getting credit	15	15	►
Protecting investors	16	16	►
Paying taxes	24	10	▼
Trading across borders	4	3	▼
Enforcing contracts	12	13	▲
Closing a business	2	2	►

Source: AfDB Statistics Department using data from Doing Business, WB

**Table 3: Governance Indicators - Score -3.0 (Worst) to 2.5 (Best)**

Indicators	2008	2009
Government Effectiveness	0.43	0.41
Voice and Accountability	-1.24	-1.27
Corruption Perception	-0.04	0.02
Rule of Law	0.22	0.22

Source: AfDB Statistics Department using data from the WEF, 2010



**Table 4: Progress Towards Achieving the MDGs**

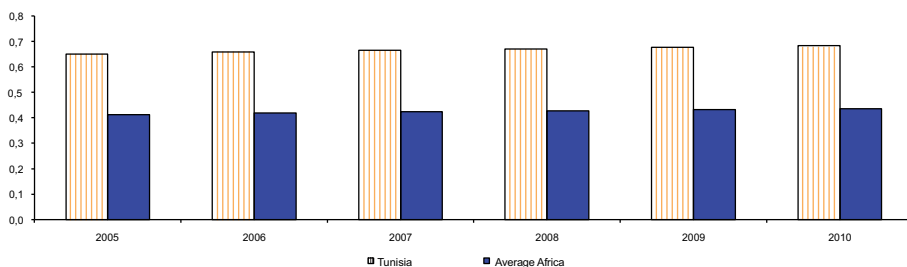
	1990 <sup>1</sup>	2000 <sup>2</sup>	2010 <sup>3</sup>
<b>Goal 1: Eradicate extreme poverty and hunger</b>			
Employment to population ratio, 15+, total (%)	40.5	40.6	41.0
Malnutrition prevalence, weight for age (% of children under 5)	8.1	-	3.3
Poverty headcount ratio at \$1,25 a day (PPP) (% of population)	5.9	2.6	-
Gini Coefficient	-	-	39.8
Prevalence of undernourishment (% of population)	2.5	2.5	-
<b>Goal 2: Achieve universal primary education</b>			
Literacy rate, youth female (% of females ages 15-24)	-	92.2	95.8
Literacy rate, adult total (% of people ages 15 and above)	-	74.3	77.6
Primary completion rate, total (% of relevant age group)	80.2	98.9	102.3
Total enrollment, primary (% net)	76.9	98.4	97.9
<b>Goal 3: Promote gender equality and empower women</b>			
Proportion of seats held by women in national parliaments (%)	4.0	12.0	22.8
Ratio of female to male primary enrollment	88.3	91.2	91.6
Ratio of female to male secondary enrollment	7.9	103.4	102.4
<b>Goal 4: Reduce child mortality</b>			
Immunization, measles (% of children ages 12-23 months)	88.0	95.0	98.0
Mortality rate, infant (per 1,000 live births)	41.0	21.5	18.5
Mortality rate, under-5 (per 1,000)	48.4	24.3	20.7

Sources : ADB Statistics Department Databases; World Bank: World Development Indicators; UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports,

**Table 4 (Cont'd) : Progress Towards Achieving the MDGs**

	1990 <sup>1</sup>	2000 <sup>2</sup>	2010 <sup>3</sup>
<b>Goal 5: Improve maternal health</b>			
Births attended by skilled health staff (% of total)	80.5	89.9	-
Contraceptive prevalence (% of women ages 15-49))	59.7	63.0	60.2
Maternal mortality ratio (modeled estimate, per 100,000 live births)	880.0	50.0	60.0
<b>Goal 6: Combat HIV/AIDS, malaria, and other diseases</b>			
Incidence of tuberculosis (per 100,000 people)	29.0	22.0	24.0
Prevalence of HIV, female (% ages 15-24)	-	-	0.1
Prevalence of HIV, male (% ages 15-24)	-	-	0.1
Prevalence of HIV, total (% of population ages 15-49)	0	0.1	0.1
<b>Goal 7: Ensure environmental sustainability</b>			
CO2 emissions (kg per PPP \$ of GDP)	1.1	0.9	0.8
Improved sanitation facilities (% of population with access)	74.0	85.0	85.0
Improved water source (% of population with access)	82.0	93.0	94.0
<b>Goal 8: Develop a global partnership for development</b>			
Net total ODA/OA per capita (current US\$)	47.6	36.0	46.1
Internet users (per 1000 people)	0.1	85.3	340.7
Mobile cellular subscriptions (per 1000 people)	0.1	381.6	953.8
Telephone lines (per 1000 people)	36.9	122.9	124.5

Sources : ADB Statistics Department Databases; World Bank: World Development Indicators;UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports,

**Graph 9 : Human Development Index**

Source: AfDB Statistics Department using data from the UNDP Databases, 2010

## Annex 12

**CIVIL SOCIETY INVOLVEMENT IN THE AfDB STRATEGY PREPARATION: APPROACHES AND LESSONS**

14 January 2011 enabled the Tunisian civil society, which had been virtually absent from the national public scene, to enter an intense development phase, resulting in the creation of more than one thousand organizations over the past few months. Civil society development will undoubtedly continue its growth in the years ahead, backed by the new Law on Associations adopted in October 2011 - a legislation that was supported by the Policy-based Budget Support Programme financed by AfDB, the World Bank, the European Union and the French Development Agency.

In a drive to respond to the aspirations of the emerging civil society, the AfDB has focused its dialogue on three thrusts in order to define its new strategy: (1) Publicizing the AfDB's current mandate, actions and strategy; (2) Identifying existing organizations, their role, representativeness and needs; and (3) Communicating and exchanging information on the AfDB's new strategy.

The identification task begun immediately after the revolution is still in progress - but the lack of a structured civil society makes the job difficult. This clear lack of identification raises the issue of representativeness of the stakeholders encountered in the exchange process. In this regard, technical support is required to ensure the credibility of exchange operations carried out.

The Bank's current and future role in Tunisia has been discussed with civil society. It should be noted that in the absence of clear identification of stakeholders and their representativeness, the selection of participants could have been biased:

**1) Exchange Meeting on the Ground:**

During the AfDB President's visit to Kef Governorate on 2 June 2011, the meeting with civil society representatives was particularly constructive for the Bank. The stakeholders' opinions, views and demands summarized the expectations of the population of this area and painted a true picture of the citizens' experience. This meeting helped to shed more light on thereality on the ground and to reflect that reality in the strategy.

**2) First Meeting at the Bank:**

The first meeting with civil society organizations, held on 15 July 2011 helped the Bank to: (i) explain the development of its engagement with the Tunisian population following the Revolution; (ii) answer questions from civil society on the need to contract debts; and (iii) discuss on the needs and relevant intervention areas in Tunisia. Five out of the thirteen associations invited were present in addition to the Director of Cabinet at the Ministry of

Finance. The presence at this meeting of senior Tunisian authorities was extremely beneficial, since clear answers were directly provided to the concerns of civil society members on Tunisia's debt situation, as well as the relevance of loans contracted by the interim Government to promote employment and regional development. Civil society representatives expressed interest in developing a strong and direct engagement with the AfDB through networking.

### 3) Second Meeting at the Bank

Following the first two meetings, the Tunisian civil society was invited to the Bank's premises to discuss the Interim Strategy Paper for 2012 and 2013. All sector departments attended the meeting. Six associations honoured the invitation. The majority of organizations made relevant contributions on the subject of the meeting. This meeting articulated a clear need for training.

The following lessons were drawn from this experience:

1) **At the strategic level:** The Bank needs to pursue this dialogue by organizing regular meetings and initiatives for the Tunisian civil society with the aim of jointly developing an engagement strategy and enhancing the

visibility of the Bank's action. This dialogue will help to bring together Tunisian society stakeholders (civil society, government, private sector) to facilitate dialogue.

2) **At the Operational Level:** Civil society involvement will be strengthened through: (i) civil society consultation in identifying and formulating the Bank's operations; and (ii) civil society involvement in the evaluation of activities. Mechanisms for implementing this process are still to be fine-tuned during implementation of the interim strategy.

3) **Need:** The poor structuring of civil society, lack of means at its disposal and the lack of mechanisms to help support civil society both technically and financially should be given special attention within the Bank. Actions are being considered within the Bank to address these needs.

4) **Representativeness:** The Bank should continue its efforts to identify civil society organizations and the level of representativeness of these institutions in order to ensure appropriate civil society involvement in its processes. Actions are underway at the Bank to address these needs.

Broadly, this action will be part of the AfDB's civil society engagement strategy.



