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MEMORANDUM

TO : THE BOARD OF DIRECTORS

FROM : Vincent O. NMEHIELLE
Secretary General

SUBJECT : TUNISIA - COUNTRY STRATEGY PAPER 2017-2021*

Please find attached the above-mentioned document.

Attach:

Cc: The President

	***Questions on this document should be referred to:**		
Mr. M. EL AZIZI	**Director General**	**RDGN**	**Extension 1414**
Ms. Y. FAL	**Deputy Director General**	**RDGN**	**Extension 7301**
Ms. A. DIARRA THIOUNE	**Regional Economist**	**RDGN**	**Extension 2359**
Mr. P. TRAPE	**Principal Country Economist**	**RDGN**	**Extension 2767**

SCCD: F.S.

AFRICAN DEVELOPMENT BANK

TUNISIA

COUNTRY STRATEGY PAPER
2017-2021

Drafting Team	Design Team	A. DIARRA THIOUNE, Regional Economist, RDGN (Team Leader) P. TRAPE, Principal Country Economist (Tunisia), RDGN (Co-Team Leader) M. CHERIF, Chief Country Programme Officer, RDGN
	Team Members	A. COULIBALY, Division Manager, ECGF T. TRIKI, Chief Country Economist, RDGN C. MOLLINEDO, Policy Specialist, PESR 1 A. DIALLO, Chief Power Engineer, ONEC 1 B. BENSASSI, Chief Water and Sanitation Engineer, RDGN 2 W. DAKPO, Chief Procurement Officer, RDGN 4 M. YARO, Chief Financial Management Officer, RDGN 4 S. ENNAIFER, Chief Financial Management Officer, RDGN 4 M. TOLBA, Chief Agricultural Economist, RDGN 2 E. DIARRA, Principal Financial Economist, RDGW 0 A. TARSIM, Principal Financial Economist, RDGN M. GUEYE, Principal Education Economist, RDGN O. BEN ABDELKARIM, Senior Education Economist, RDGN P. FALL, Senior Transport Engineer, RDGN 4 F. RODRIGUES, Senior Investment Officer, RDGN 0 W. GALLALA, Young Professional, AHWS 2 A. KIES, Consultant, RDGN 0 E. LARBI, Consultant, ECGF
	Deputy Director-General	Yacine FAL, RDGN
	Director-General	Mohamed EL AZIZI, RDGN
Peer Reviewers	T. HOUENINVO, Principal Country Economist, RDGW/ COSN J.TOKINDANG, Principal Country Economist, RDGC C. N'KODIA, Senior Country Economist RDGC/COTD D. NDOYE, Senior Country Economist, RDGW	

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Capitale nationale
Capitale de la province
D'autres villes
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CURRENCY EQUIVALENTS (May 2017)

UA 1	=	3.15 Tunisian Dinars (TND)
UA 1	=	1.26 Euro (EUR)
UA 1	=	1.36 US Dollars (USD)

FISCAL YEAR

1 January – 31 December

List of Abbreviations

ACR	Africa Competitiveness Report
AEOR	African Economic Outlook Report
AFD	French Development Agency
AfDB	African Development Bank
AFI	Agro-Food Industries
AGTF	African Growing Together Fund
AMU	Arab Maghreb Union
ANC	National Constituent Assembly
ANETI	National Employment and Self-Employment Agency
APII	Industry and Innovation Promotion Agency
ARP	Assembly of the Representatives of the People
AWF	African Water Facility
BCT	Central Bank of Tunisia
BH	*Banque de l'Habitat (Housing Bank)*
BMBO	Budget Management by Objectives
BNA	*Banque Nationale Agricole (National Agricultural Bank)*
CEE	Centre for Entrepreneurial Excellence
CGSP	General Control of Public Departments
CPI	Consumer Price Index
CPI	Corruption Perceptions Index
CPPR	Country Portfolio Performance Review
CPSCL	Loan Support Fund for Local Authorities
CRES	Centre for Research and Social Studies
CSO	Civil Society Organization
CSP	Personal Status Code
CSP	Country Strategy Paper
DCFTA	Deep and Comprehensive Free Trade Agreement
DWSS	Drinking Water Supply and Sanitation
ECI	Economic Complexity Index
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
ETAP	*Entreprise Tunisienne d'Activités Pétrolières (Tunisian National Oil Company)*
EU	European Union
EUR	Euro
FAPA	Fund for African Private Sector Assistance
FDI	Foreign Direct Investment
FHC	Free Health Care
FIPA	Foreign Investment Promotion Agenc*y*
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GEF	Global Environment Facility
GIZ	*Deutsche Gesellschaft für Internationale Zusammenarbeit (German Corporation for International Cooperation)*
GNU	National Unity Government

HDI	Human Development Index
HF	Heritage Foundation
IADP	Integrated Agricultural Development Project
ICSP	Interim Country Strategy Paper
ICT	Information and Communication Technologies
IDEV	Independent Evaluation Department
IIAG	Ibrahim Index of African Governance
IMF	International Monetary Fund
INS	National Institute of Statistics
IsDB	Islamic Development Bank
ITCEQ	Tunisian Institute of Competitiveness and Quantitative Studies
JICA	Japan International Cooperation Agency
KFW	*Kreditanstalt für Wiederaufbau (German Development Bank)*
KWH	Kilowatt-hour
MDB	Multilateral Development Banks
MDICI	Ministry of Development, Investment and International Cooperation
MENATF	Middle East and North Africa Transition Fund
MIC	Middle Income Countries
MIC-TAF	Middle Income Countries Technical Assistance Fund
MMR	Money Market Rate
MSME	Micro, Small and Medium-Sized Enterprises
MTEF	Medium-Term Expenditure Framework
MVA	Manufacturing Value Added
NEM	New Economic Model
NER	Nominal Exchange Rate
NGO	Non-Governmental Organization
NIS	National Integrity System
OECD	Organization for Economic Cooperation and Development
PADRCE	Regional Development and Job Creation Support Project
PADRI	Inclusive Regional Development Support Programme
PAEPR	Rural Drinking Water Supply Project
PFM	Public Finance Management
PIP	Public Investment Programme
PISA	Programme for International Student Assessment
PISEAU	Water Sector Investment Programme
PMIR	Road Infrastructure Modernization Support Programme
PNAFN	National Assistance Programme to Needy Families
PPD	Public-Private Dialogue
PPIP	Country Portfolio Performance Improvement Plan
PPP	Public-Private Partnerships
QLI	Quality of Life Index
RDI	Regional Development Index
RISP	Regional Integration Strategy Paper
RMC	Regional Member Countries
RRC	Regional Resource Centre
SBL	Supplementary Budget Law

SDP	Strategic Development Plan
SIA	Small Irrigated Areas
SME	Small- and Medium-Sized Enterprise
STB	*Société Tunisienne de Banque*
STEG	*Société Tunisienne de l'Electricité et du Gaz* (the national electricity and gas utility)
TCI	Textile and Clothing Industry
TFP	Total Factor Productivity
TFP	Technical and Financial Partners
TFT	Trust Fund for Countries in Transition
TND	Tunisian Dinar
TOE	Tonne of Oil Equivalent
TRA	Temporary Relocation Agency
UA	Unit of Account
UGTT	Tunisian General Labour Union
UNDP	United Nations Development Programme
UTICA	Tunisian Confederation of Industry, Trades and Handicrafts
WEF	World Economic Forum

EXECUTIVE SUMMARY

1. Following the January 2011 Revolution, Tunisia entered a phase of political and economic transition. While the country achieved a successful transition with the adoption of a new Constitution on 27 January 2014 and the organization of general elections, the economy is struggling to return to the high growth rates of the pre-2010 period. In addition to the security aspect, the need to meet the strong social demands expressed during the Revolution has created significant macro-fiscal imbalances that the authorities are experiencing difficulty in reducing. The low average growth rates posted since 2011 (1.71% over the 2011-2015 period compared to 3.6% over the 2008-2010 period) have mainly been due to delays in implementing structural reforms aimed at adjusting Tunisia's economic development model in force since 1972. From 2011 to 2016, the Bank has provided Tunisia with support in the form of two (2) interim strategies (2012-2013 and 2014-2016), whose objective was to support the transition period by financing operations aimed at reducing regional disparities, fighting inequality and supporting the implementation of structural and governance reforms. It was also necessary to give the authorities the necessary time to allow them to prepare their medium-term strategy. In this regard, the Bank financed a major capacity building programme, including the provision of technical assistance and the conduct of strategic studies aimed at assisting decision-making by the authorities.

2. Reverting to the principle of five-year plans developed up to 2010, the new Government in 2015 initiated the preparation of a 2016-2020 Strategic Development Plan (SDP) 2016-2020 aimed at returning Tunisia to a sustainable growth trajectory in line with its historical long-term average of 5% by 2020 (see Annex 4).

3. The broad lines as well as the main focus areas of the SDP were presented in a Guidance Note published in September 2016, which served as the basis for the preparation of the Bank's new Country Strategy Paper (DSP) for the 2017-2021 period. In compliance with the strategic directions of the Bank's 2013-2022 Long-Term Strategy, its high five priorities (High 5s) as well as the recently approved sector and thematic strategies such as the 2016-2025 New Deal for Energy in Africa 2016-25, the 2016-2025 Jobs for Youth in Africa Strategy, the Bank Group's Industrialization Strategy for Africa and the Agricultural Transformation Strategy for Africa, 2016-2025, the goal of this new CSP is to support Tunisia in implementing its SDP through two (2) pillars: (i) Industrialization and value chains development; and (ii) Improvement of the quality of life for the people of the priority regions. This CSP has been particularly enriched by the lessons learned from the evaluation of Bank assistance to Tunisia over the 2004-2014 period as well as those of the two interim strategies (2012-2013 and 2014-2016).

4. The main expected outcomes of the 2017-2021 CSP will be for the first Pillar: (i) improvement of the overall competitiveness and productivity of Tunisian industry through a global action aimed at reducing factor costs (labour, energy, water and telecommunications) and logistic costs, a significant improvement of the business climate and an increase in public and private investments. The Bank will also strive to achieve a qualitative improvement in the supply of labour provided by the Tunisian education system by more closely matching demand from businesses with the education system's training supply. Furthermore, it will take actions to increase the integration rate for young people without school-leaving qualifications into professional life.

5. The expected outcomes of the second Pillar will mainly consist in improving the quality of service provided by government services and local government, and facilitating access to public services in compliance with the highest existing standards of quality for the population of the priority regions as well as increasing the growth, income and employment of the population of the sixteen (16) priority governorates according to the Regional Development Index (RDI).

6. This change will be obtained through a holistic regional economic development strategy based on increased exploitation of local value chains, development of the rural economy, improved access to markets, and promotion of targeted entrepreneurship that prioritizes women and young people.

7. Furthermore, with respect to the green economy, the 2017-2021 CSP will contribute to efforts to diversify energy using renewable resources and improving energy efficiency. In the area of environmental enhancement, the CSP will undertake sanitation and waste management actions, harness non-conventional water resources and disseminate irrigation techniques that will help to save water in a bid to ease water stress.

8. The main risks that could partly or fully compromise the expected outcomes are of a security, political, and macroeconomic nature. The CSP has provided for a series of activities aimed at minimizing these risks especially in the context of the initiation of very high-level dialogue with the Tunisian Government.

I. INTRODUCTION

1.1 Following the January 2011 Revolution, Tunisia entered a four-year transitional period. On the political front, this period was mainly dominated by the preparation of a new Constitution, which led to the organization of legislative and presidential elections in late 2014, and the formation of a government in February 2015. On the economic front, since 2011, Tunisia has been faced with a deterioration of its public finances due to the volume of recurrent expenditure in the budget, particularly salaries, and difficulties in boosting and implementing the structural reforms that would allow the country to return to sustainable, inclusive growth by laying the foundations of a new economic and social development model. The transitional period was also marked by the absence of a medium-term economic strategy to succeed the five-year plans which, since the 1960s, had been the main political economic and social tool for Tunisia's development.

1.2 During the transitional period, and pending clarification of the political situation and finalization of a medium-term development strategy, the Bank has supported Tunisia through two interim strategies (2012-2013 and 2014-2016). The main objective of these two strategies was to support the Tunisian Government's efforts to revive growth, implement the necessary structural reforms for economic recovery and reduce the regional disparities that had sharply increased over the past two decades. Aware of the need to steer the country in a new direction in terms of economic and social development, the new government appointed in February 2015 following the general elections in late 2014 set the priority of establishing a development strategy over the 2016-2019 period called the *Strategic Development Plan (SDP).*

1.3 The Bank has decided to support the SDP's implementation with a new 2017-2021 Country Strategy Paper (CSP) for Tunisia as part of the operationalisation of its ten-year vision on Africa's structural transformation process and as a strategic framework for rolling out the Bank's High-5s in Tunisia.

1.4 This report is organized in four (4) Chapters. Chapter I serves as the Introduction. Chapter II gives an overview of the country context from the political, economic and social standpoints. It also describes the country's medium-term strategy (SDP) and reviews the challenges and opportunities facing Tunisia over the next five (5) years. It then describes the Bank's positioning in the country and analyses Tunisia's performance in aid coordination and harmonization. Chapter III presents the main pillars and thrusts of the Bank's strategy for the 2017-2021 period as well as the risks related to implementing the strategy, and proposes mitigation measures. Chapter IV presents the conclusions and recommendations.

II. COUNTRY CONTEXT AND PROSPECTS

2.1 POLITICAL, ECONOMIC AND SOCIAL CONTEXT AND CROSSCUTTING THEMES

A. POLITICAL CONTEXT

2.1.1 In the wake of the "Arab Spring", Tunisia made a successful political transition by establishing democratically elected institutions. Despite a difficult gestation period marked by an initial bottleneck relating to the content of the Constitution and formation of a Government of technocrats from January to June 2014, the adoption of the new Constitution by the National Constituent Assembly (ANC) led to the organization of legislative and presidential elections in the fourth quarter of 2014. A new assembly, the Assembly of the Representatives of the People (ARP), a single chamber Parliament, was elected in late October 2014.

2.1.2 The legislative elections were won by the *Nidaa Tounes* party with 86 out of the 217 seats, followed by the *Ennadha* Islamist party in second position with 69 seats. The former Prime Minister during the transition period, Mr. Beji Caid

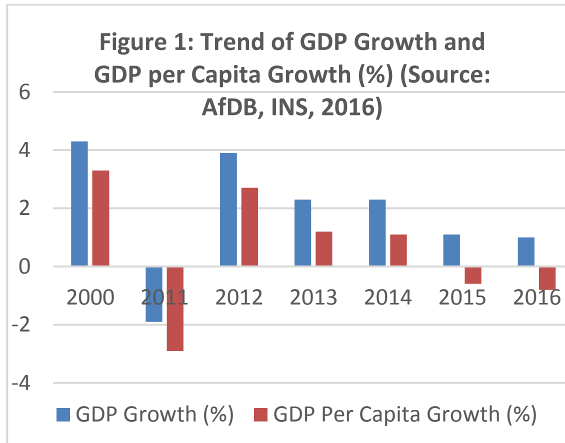
Essebsi, won the presidential elections and designated an independent senior civil servant, Mr. Habib Essid, to form the first government of the Second Republic. The maintenance of optimal security nationwide, the recovery of the economy and the reduction of unemployment as well as the preparation of a medium-term economic development strategy were the main elements of the new Government's roadmap. However, the new Government did not enjoy any grace period

2.1.3 The year 2015 and early 2016 were marked by a resurgence of social conflicts against a backdrop of rising wage claims in the civil service and private sector, and the deterioration of the security conditions. In particular, three (3) terrorist attacks[1] called into question the directions of the existing security policy and interrupted the recovery of the tourism sector, which had been seriously affected during the post-Revolution period and by the outbreak of war in Libya[2] but had recovered since 2012. The worsening of the economic and social situation and the absence of any economic recovery hastened the fall of the Essid government on 30 July 2016. The President of the Republic asked Mr. Youssef Chahed, former Minister of Local Affairs, to form a National Unity Government (NUG). The new Government, mainly comprising specialists from civil society, won the ARP's vote of confidence on 26 August 2016 and took office on 30 September 2016.

B. ECONOMIC CONTEXT

➢ Growth

2.1.4 Despite a successful transition and some degree of resilience, Tunisia is experiencing difficulties in returning to its pre-Revolution growth rate. Since 2011, the average growth rate has remained below its potential long-term level estimated at around 5%. The average growth rate over the 2011-2016 period was 1.47% compared to 3.6% over the 2008-2010 period. With growth rates of 1.1%[3] in 2015 and 1% in 2016 compared to 3% and 2.6% in the 2015 and 2016 Budget Laws, the Tunisian economy has now entered a cycle of negative growth and stagnation. Tunisia has in fact produced less wealth per capita since 2011. The GDP per capita growth rate - which is also a general indicator of productivity - has fallen since 2000 from 3.3% to - 0.8% in 2015 (see Figure 1). According to the World Bank's classification, since August 2016, Tunisia has become a lower middle income country (MIC).



2.1.5 The Tunisian economy's current difficulties are linked to several cyclical and structural factors. In the case of the cyclical factors, the growth slowdown in the Euro zone – Tunisia's main client - in the wake of the 2009 financial crisis and the Greek debt crisis, the deterioration of the security situation linked to the Libyan conflict, a tense social climate that blocked production in 2015 in the mining (phosphate) and hydrocarbon (oil and gas) sectors, and a non-incentive business climate seriously affected growth and investment. The investment rate, which was 24.6% in 2010, dropped to 19.5% of GDP in 2016. While the Tunisian economy remains dominated by services that represented 61.5% of GDP at end -2014, their contribution to GDP has increased compared to 2010 (59.8%).

1 The first attack was on the Bardo Museum in Tunis on 18 March 2015. The Sousse attack on a hotel occurred on 26 June 2015. The third attack was on the Presidential Guard on 27 November 2015.

2 Before the 2011 Revolution, the tourism sector contributed about 7% to GDP, employed 400,000 people full time and part time, and was a major foreign exchange earner.

3 The initial growth figure for 2015 (0.8%) was revised in January 2016 to 1.1% by the National Institute of Statistics (INS) as a result of higher than expected agricultural GDP growth.

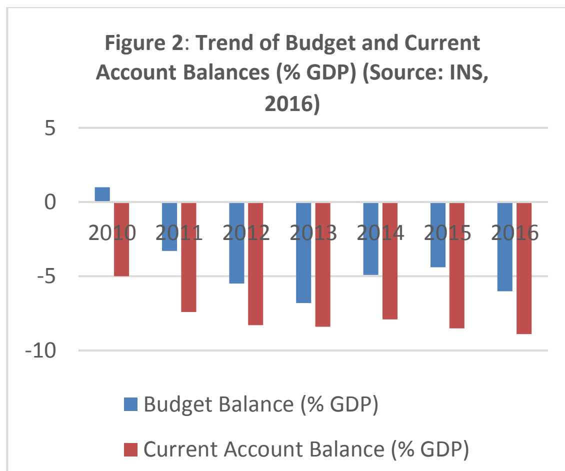
This increase is mainly due to services provided to government departments whose contribution to GDP rose from 7.9% in 2010 to 9.3% in early 2015. At the same time, the contribution of industry to GDP began to decline. Manufacturing and non-manufacturing industries, which represented 32% of national wealth in 2010, only accounted for 28.8% at end-2015 (see Annex 2). In this context, it is worth noting that the contribution of the agriculture and fisheries sector to GDP rose from 8.2% to 9.7%. Fuelled by the increase in public sector employment and wage increases, public and private sector consumption has now become the key driver of the Tunisian economy's growth and one of the main sources of tax revenue. From a structural standpoint, Tunisia is experiencing considerable difficulty in reforming its economic and social model (see Box 1). This model has been unable to address the country's three main challenges for the future, namely: (i) the resumption of strong growth; (ii) the reduction of inequalities and disparities; and (iii) job creation.

Box 1: The complexity of the political economy of reforms in Tunisia since the Revolution

The difficulties concerning the progress of reforms are attributable to existing political divergences concerning the direction to give Tunisia's new economic and social model, and strong opposition from unions and part of civil society to attempts to call into question benefits acquired over three decades under an essentially State-run economic system. The main reforms considered urgent and a high priority are: (i) reform of the banking and financial sector; (ii) reform of the social protection and compensation system (subsidy system for energy and staple products); (iii) reform of the tax system, including local taxation; (iv) reform of the State and civil service; (v) reform of public enterprises; and (vi) reform of the labour market since it has been identified as one of the two (2) main constraints on growth (along with improvement of the rule of law) by the Tunisia Growth Diagnostic conducted by the Bank in 2012. However, there was symbolic but encouraging progress in 2015 in some strategic areas. Following audits of three public banks (Société Tunisienne de Banque – STB; Banque de l'Habitat – BH; and Banque Nationale Agricole - BNA), the central government initiated a TND 1.2 billion public banking sector recapitalization operation. These actions will be complemented by the adoption of a new law on the regulation of the banking sector in 2017. Another decisive step was taken concerning investment financing in Tunisia with the ARP's adoption of the Law on Public-Private Partnerships (PPP) on 13 November 2015. The new government headed by Youssef Chahed which took office on 30 August 2016 plans to accelerate the pace of reform approvals. Following a long gestation period, the Investment Code was approved by the ARP before the National Conference to be held on 29 and 30 November 2016 and entered in force on 29 March 2017. Finally, considered as the overarching piece of the Government to boost the economy, the Strategic Development Plan (SDP) 2016-2020 was approved by the ARP on 12 February 2017. These steps aimed at improving the institutional environment should be intensified in order for Tunisia to generate a sustained and high-level growth.

➢ Macroeconomic Management

2.1.6 Since 2011, Tunisia's economic situation has deteriorated. It is now characterized by a twin deficit situation – fiscal and current account deficits (see Figure 2).



2.1.7 The six (6) Budget Laws enacted by Parliament since 2011 were imbalanced, generated fiscal deficits and widened the economy's annual financing gap. The persisting public finance imbalance is mainly due to the size of the wage bill in recurrent expenditure that has almost doubled since 2010. Thus, the civil service wage bill[4] represented TND 13 billion in the 2016 Budget Law, i.e. 44.6% of the total budget compared to 38% in 2010. The rising wage bill is due mainly to the continuing policy of civil service recruitments

[4] Excluding public enterprises and institutions.

since 2011[5] under public pressure to control youth unemployment as well as successive salary increases given by the different governments since 2011 under trade union pressure to maintain social peace. However, while the number of civil servants has risen by 15% since 2010, the productivity of the administration and public services has declined over the same period since government services continue to suffer seriously from absenteeism[6]**.** To the high wage bill must be added the high proportion of transfer expenditure, especially in relation to the compensation system that combines subsidies to energy, transport and staple products, which, in 2016, accounted for 8.7% of the budget[7].

2.18 In the absence of any significant increase in tax revenue and additional fiscal space, the increase in operating expenditure is at the expense of investment, which often acts as an adjustment variable in the preparation of Supplementary Budget Laws (SBL). To correct this distortion, the second International Monetary Fund (IMF) programme aims to bring down the civil service wage bill from 14.6% in 2015 to 11.8% of GDP by 2019 through civil service reform.[8] On the external front, the recovery policy based mainly on consumption, considerably widened the current account deficit.

2.1.9 Current deficit represented 4.7% of GDP in 2010 and increased by about 85% over five years to 8.9% of GDP in 2016. This increase was largely due to the widening trade deficit for goods and services, and in particular that of the energy balance (deficit of TND 2.7 Bil. representing 22% of the total trade deficit). Lastly, the decline of the tourism sector linked to the 2015 attacks – which implies lower foreign exchange earnings - represents another constraint on the current account balance and balance of payments (see Figure 5). However, Tunisia has displayed some resilience since foreign exchange reserves remained stable in 2015 in relation to the 2014 level of around 113 days of imports[9].

➢ Monetary Policy, Inflation and Exchange Rate

2.1.10 Since 2011, the Central Bank of Tunisia (BCT) has pursued an accommodative monetary policy aimed at supporting the economy by providing the banking system with the necessary liquidity, while attempting to control inflation. In this regard, BCT carried out flexible management of its main rate – the Money Market Rate (MMR) - which averaged 4.50% in 2010, 3.5% in 2012, 4% in 2013 and 4.3% in November 2015. Inflation rose sharply from 3.5% in 2009 to 5.8% in 2013 before sliding back to 4.9% in 2015 then to 3.7% in 2016, especially as a result of the falling oil bill. However, this inflation led to a drop in the purchasing power of households, thus making it difficult to adjust the compensation programme and introduce a moratorium on salary increases. The deterioration of the economic fundamentals combined to a high current account deficit and continuing pressure on foreign exchange reserves has contributed to a rapid depreciation of the nominal exchange rate of the Dinar against the Euro and the US dollar.

2.1.11 Therefore, the nominal value of the dinar has depreciated on average by about 38.5% since 2010. This strategy has also allowed Tunisia to maintain competitive prices for its exports. At the same time, the continuing depreciation of the

5 The number of civil servants was reported to have risen from 580,000 in 2011 to 650,000 in 2015. However, these are estimates since no annual report on the central government's situation is produced in Tunisia. If the personnel of public enterprises estimated at 200,000 is added, Tunisia now has 850,000 public sector employees.

6 According to the Ministry of Civil Service, Administrative Reform and Governance, the rate of absenteeism in the Tunisian civil service and public enterprises according to data from a survey carried out by the General Control of Public Departments (CGSP) in 2016 represented 2.7 million work hours, at a cost estimated at TND 600 million, i.e. 2% of the budget.

7 It is, however, worth noting that the cost of the compensation system for the General Government Budget has been halved compared to 2013 when it represented 15.7% of the Budget following a significant drop in oil prices.

8 The IMF has intervened in Tunisia since June 2013. The first programme approved on 7 June 2013 amounting to USD 1.73 billion dollars produced mixed results and did not really help to stabilize the economy. A second programme of USD 2.8 billion over four years was approved on 20 May 2016. The programme has experienced difficulties due to the lack of progress in implementing reforms. Only one tranche has been disbursed since approval in May 2016

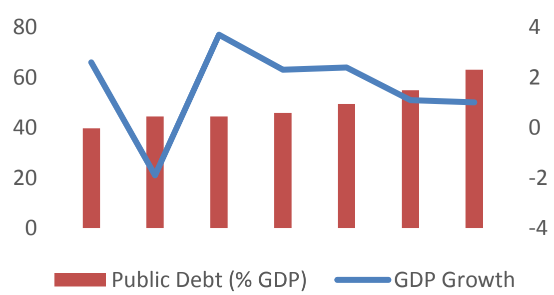
9 Foreign exchange reserves were maintained mainly through a USD 1 billion bond issue on the international financial market in early 2015 but also to the issue of a 850 Million Eurobond in February 2017.

Dinar since 2011 has also contributed to higher import prices and weakened the current account balance. Insofar as the proportion of external debt in Tunisia's total debt has increased considerably since 2011 and, as at 31 August 2016, represented 70% of public debt, strategic trade-offs could be required in time, implying the need to arrive at an exchange rate that would make it possible to balance all these variables.

➢ Public Debt

2.1.12 A natural upshot of the series of high primary deficits since 2011 has been a significant increase in Tunisia's public debt. In 2016, outstanding public debt had reached 63% of GDP, compared to 39.7% in 2010. Since 2010, Tunisia's debt ratio has increased by about 55% i.e. an average annual rate of about 8% considerably higher than the average growth rate of the economy (1.47%).

Figure 3: Comparative Trajectories of GDP and Debt: (Source: Ministry of Finance, 2016)



2.1.13 However, the debt service to exports ratio remained fairly stable over the 2014-2016 period at around 13.5%. Currently, Tunisia's public debt is deemed sustainable as it is mainly based on: (i) relatively long maturities averaging ten (10) years; and (ii) a falling weighted average interest rate since 2011 with the exception of the domestic debt rate that is twice that of the external debt rate. However, the important share of external debt in the composition of public debt implies that the latter could be exposed to cyclical shocks as well as exchange rate fluctuations and growth-related uncertainties.

➢ Financial Sector

2.1.14 The January 2011 Revolution exposed structural difficulties in the highly fragmented Tunisian banking sector dominated by public banks. The fragility of the Tunisian banking sector is, above all, the result of inappropriate governance, the importance of central government in the sector and poor risk management that has resulted in an increase in bad debts over the past two decades,[10] especially in the tourism sector. The tourism sector debt stood at TND 4 billion in June 2016. Aware of the existence of a potential systemic risk to the real economy, the Tunisian Authorities in 2011 resolved to embark upon the necessary reforms to restructure the financial sector. Audits were performed on three public banks – *Société Tunisienne de Banque (STB), Banque de l'Habitat (BH) and Banque Nationale Agricole (BNA)*. These three banks were recapitalized to the tune of TND 1.2 billion in 2015.

2.1.15 The measures taken resulted in the reduction of bad debts from 24.2% in 2011 to 16% in 2015, but this ratio remains high compared to the ratios recorded in other countries in the region. However, considerable efforts have been made in terms of provisioning, with an increase in the provisioning ratio to 56.6% in 2015 compared to 47.5% in 2012. The average bank solvency ratio was 9.5% as at 30 March 2015, i.e. below the regulatory rate of 10%[11]. Further efforts are required to improve the profitability of the sector in service to the economy and to enhance its overall governance. The Law on the Banking Sector in the pipeline since 2013, which is expected to be approved in 2017, should strengthen the sector.

[10] The *Heritage Foundation (HF)* awarded Tunisia score of 30/100 in 2015 for financial independence and ranked it 131st in the world (out of 188 countries considered).

[11] This ratio was 12.5% for public banks and only 3.5% for public banks.

2.1.16 For its part, the Tunisian non-banking sector is barely developed. The capital and fixed income securities markets are still quite timid and market capitalization is about 24% of GDP compared to 76% in Morocco (see Annex 9).

➢ Governance

2.1.17 Since 2011, Tunisia has made undeniable progress in terms of political and institutional governance, especially with the promulgation of a new Constitution in January 2014 that enshrines the country's progress in the areas of democracy and transparency through the opening up and development of Tunisian society, and advancement in terms of the right to information, to mention but a few. Tunisia is ranked 8th out of 52 countries in the 2015 Ibrahim Index of Governance in Africa with steadily rising scores since 2010, particularly with regard to rule of law and accountability.

2.1.18 The September 2015 Open Budget Survey shows that the country has also made strides in terms of fiscal transparency compared to the previous survey in 2012. Its score virtually quadrupled from 11/100 to 42/100. Tunisia has embarked upon a vast programme of PFM reforms integrated into the new Organic Budget Law tabled before Parliament in November 2015 and awaiting adoption. This will eventually provide the legal basis for implementing budget management by objectives (MBO), medium-term programming of budget envelopes, introduction of accounting on a double entry or full accruals basis that will converge towards international accounting standards, and certification of central government's annual financial statements by the Court of Auditors.

2.1.19 In addition, Tunisia has since 2013 initiated the implementation of a public procurement reform action plan following the adoption of the public procurement evaluation system in August 2012. Implementation of the first measures of this ongoing plan have clearly resulted in progress mainly through: (i) the adoption of a new Decree on public procurement in 2014, which is more transparent and compliant with international standards; (ii) the establishment of an e-platform for the dematerialization of public procurement and electronic bid submission - TUNEPS (2014); (iii) the initiation of professionalization of procurement personnel following the 2013 establishment of the public procurement control body by Decree. The 2016 adoption of Decree 2016-498 determining the conditions and procedures for debarment from participation in public contracts, which paves the way for the effective enforcement of penalties on bidders involved in prohibited practices. Several other actions contained in this action plan still have to be implemented.

2.1.20 The Bank will assist Tunisia in implementing these procurement and public finance reforms in accordance with its fiduciary strategy presented in Annex 15. A PEFA conducted in 2015-2016 with assistance from AfDB, the EU and the World Bank is being validated and will also help to guide future reforms to be implemented. However, further efforts are required in combatting corruption, which has intensified considerably since 2011 according to the conclusions of the National Integrity System (NIS) published in 2015, especially in the area of public procurement. Tunisia is now ranked 76th out of 168 countries in the 2015 Transparency International Corruption Perceptions Index (CPI).

➢ Competitiveness

2.1.21 The recent delays in implementing structural reforms and deterioration in the security and social context have affected Tunisia's competitiveness. Over the past two decades, the country's competitiveness was due to its geographic proximity to Europe, low wage costs and highly favourable fiscal and non-fiscal incentives. The increase in social demands and successive wage increases since 2011 have reduced Tunisia's historical comparative advantage. As a result, the country has slipped back several positions in the international classifications since 2011, especially in Doing Business, where Tunisia was classified 74th out of 189 countries in 2015 compared to 45th in 2011. Tunisia has also lost ground in the 2015 Global Competitiveness Index (GCI) of the World

Economic Forum (WEF), from 87th position in 2014 to 92nd in 2015 out of 140 countries. The WEF classification ranks Tunisia 133rd for labour market efficiency and 122nd for financial sector development.

2.1.22 The four main constraints affecting the business climate identified by the WEF concern: (i) the inefficiency of public administration; (ii) political instability; and (iii) corruption. With regard to the last point, the most recent Transparency International Corruption Perceptions Index (2014) ranks Tunisia 79th out of 175, which is slightly below the previous year's ranking.

C. SOCIAL CONTEXT

2.1.23 Five years after the Revolution, the social climate remains tense. On the employment front, the situation has deteriorated. After peaking at 18.9% in 2011, the unemployment rate has remained at around 15% since 2013. By end-2015, Tunisia had 618,000 unemployed, i.e. 15.4% of the labour force estimated at 4 million people according to the National Population and Employment Survey carried out by the National Institute of Statistics (INS). The unemployment rate among women (22%) is almost double that for men (12.5%). Graduate unemployment (28.6%) remains worrisome since the current growth level prevents the absorption of the approximately 60,000 graduates entering the labour market annually. The Government currently allocates about 16% of its budget to social policies based on direct and indirect transfers to guarantee food security and reduce poverty. According to a study conducted in 2013 by the Research and Social Studies Centre (CRES), transfers and subsidies have resulted in a one-percentage point reduction in the poverty rate (from 16.5% to 15.5%)[12]. However, these measures in favour of the most vulnerable segments of the population have revealed major weaknesses in terms of efficiency and targeting, which limits their impact. Only 48.8% of poor people are reported to really benefit from the Government's two flagship projects on social protection- Free Health Care (AMG) and the National Assistance Programme to Needy Families (PNAFN). Moreover, only 9.8% of poor people are reported to effectively benefit from the budget allocated to subsidies, and only 12% from specific subsidies on food products. A global reform of the social protection system is essential to limit the drain of the compensation system on public finances.

D. CROSS CUTTING THEMES

➢ Gender

2.1.24 Tunisia enjoys a special status in the Arab world in terms of women's rights. The 1956 Personal Status Code (CSP) placed Tunisia at the forefront of the Arab world as regards women's status in society. In 2016, Tunisia was awarded a prize by the African Union (AU) for the best social protection index in recognition of its outstanding efforts in strengthening gender equality and improving women's status in society. However, some disparities exist, either in law (e.g. continuing inequality over inheritance despite some debate) or customary practices. Generally, the indicators on women's education show that women have very good access to education. The completion rates for the different training cycles are higher than for men and women only account for 40,4% of school drop-outs. However, women are the most seriously affected by illiteracy at a 25% rate compared to 12.4% for men.

2.1.25 Furthermore, the ease of access to education is not reflected in economic opportunities, in spite of the fact that Article 5 bis of the Labour Code prohibits gender discrimination and guarantees equality at work pursuant to Article 40 of the new Constitution. Women only represent 25.8% of the employed working population and their unemployment rate is 22.2% compared to 12.4% for men (the rate

[12] According to Guidance Note on the 2016-2020 Strategic Development Plan (SDP), one out six Tunisians lives below the poverty threshold. While poverty had almost halved between 2000 and 2010 from 32% to 15.5%, it has been rising since 2011. Poverty is also most prevalent in the Mid-West and Western regions of the country where the gap has widened between them and the rest of the country.

jumps to 38.4% for women graduates, against 19.9% for men). Women's participation in the legislative branch has improved significantly, with the adoption of the principle of gender parity on electoral rolls, starting with elections to the National Constituent Assembly in 2011. Forty-nine (49) of the 217 seats in the Assembly were occupied by women (22.5% of the total). This number rose to 68 seats (31.3 %) in 2015.

2.1.26 The significant representation of women in the Chahed government and the appointment of a woman to the strategic portfolio of finance indeed reflects the real progress in women's participation in political and economic life and in decision-making. However, in spite of this visible progress, Tunisia is ranked 34th under the *'Women in Parliament'* criterion of the 2015 Global Gender Gap Report published by the WEF. Women also remain poorly represented in the diplomatic corps (6 out of 61 Ambassadors in 2015). Furthermore, the widespread prevalence of violence against women persists both in the public (53.5%) and private spheres (45%). A draft organic law on elimination of violence against women was adopted in July 2016 at the Council of Ministers. Its provisions include the punishment of perpetrators of harassment against women in public places by one year's imprisonment. Needless to say, gender disparities and discrimination are more widespread in the disadvantaged governorates as well as in rural areas.

➢ Environment and Green Growth

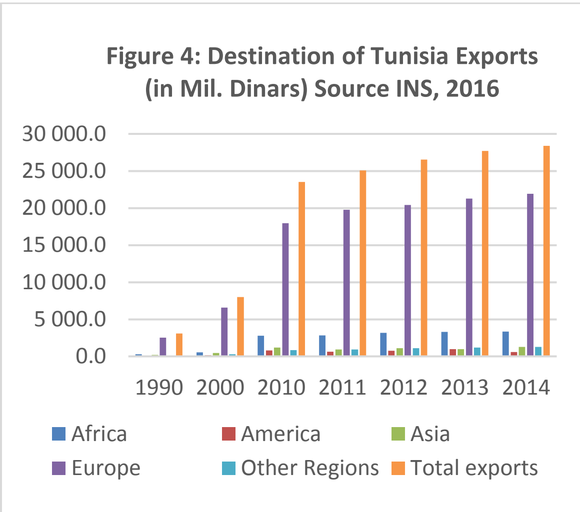
2.1.27 Over the past few decades, Tunisia has made great strides in environmental protection due to the establishment of different institutions dedicated to environmental activities, on the one hand, and heavy investment particularly in the areas of water management, pollution control and energy management, on the other. The country for long developed environmental and sustainable development policies. Since the eighties, Tunisia has established specialized structures, a legal and regulatory system and tools and measures for protecting the environment and mainstreaming environmental concerns in the different sectors. However, the country's environment and natural resources have been placed under many types of pressure from human activity and economic growth. Currently, the main environmental problems concern: (i) the deterioration of water resources and the treatment of waste water (industrial and domestic); (ii) insufficient waste management (domestic and industrial); (iii) air pollution (mining/industrial and urban from transport); (iv) desert encroachment and soil degradation; (v) degradation of the coastal environment; (vi) climate change; and (vii) loss of biodiversity.

➢ Regional Integration

2.1.28 The issue of regional integration and the creation of a common market of 90 million people has made little progress in North Africa over the past two decades despite the existence of a dedicated regional institution –the Arab Maghreb Union (AMU) – of which Tunisia is a member. Unlike the other African regions, North Africa remains a zone not closely integrated either politically or economically. The cost of non-integration is estimated at 3% of regional GDP.

2.1.29 In the absence of a common trade policy and harmonization of customs policies in North Africa, trade between AMU countries is limited. To overcome this constraint, Tunisia's trade relations are based upon some ten bilateral trade agreements with Morocco, Mauritania, Libya and Algeria. About 10% of Tunisia's trade is within the North Africa region and its main partners are Algeria and Libya, which are among the top five destinations for its exports. However, the European Union (EU) remains Tunisia's leading trading partner and its main foreign investor, since 90% of firms with foreign participation are European.

2.1.30 In 2015, Tunisian exports to the EU represented 69.3% of total exports, with 65.9% of imports also from the EU. In the longer term, Europe wishes to forge closer trading ties with Tunisia with the signing of a Deep and Comprehensive Free Trade Agreement. (DCFTA) intended to go beyond the liberalization of trade and removal of customs duties in favour of closer regional integration. At the same time, Tunisia could benefit from diversifying its trade relations with the African continent, in particular with Sub-Saharan Africa, in light of the fact that exports to Africa in 2014 only represented 11% of the year's total.



2.2 STRATEGIC OPTIONS

A. COUNTRY STRATEGIC FRAMEWORK

2.2.1 In the wake of the January 2011 Revolution, Tunisia temporarily suspended the five-year development plan system that had been used since the 1960s. Against a background of transition and in the absence of any real political and economic visibility, the vast majority of the different successive governments opted for an expansionary fiscal policy in order to boost domestic demand with a view to reviving the economy. The preparation of a medium-term economic development strategy was, however, one of the priorities of the Essid government formed in January 2015 following the end-2014 general elections. The government opted for security by once again turning to a five-year plan for the 2016-2020 period.

2.2.2 The Government decided to prepare its new development strategy in two (2) phases. The first consisted in the preparation of a Guidance Note that set out the main focus areas for government's economic and social interventions over the 2016-2020 period. The second phase involved the preparation of a Strategic Development Plan (SDP) on a consultative basis, the aim of which was to translate the strategic directions of the Guidance Note into investment and reform projects and programmes. The Strategic Development Plan (SDP) focuses on the following five (5) main thrusts:

(i) Good governance and structural reforms
(ii) Human development and social inclusion
(ii) From a low-cost economy to an economic hub
(iv) Realization of regions' ambitions
(v) The green economy and sustainable development

2.2.3 The objectives of the 2016-2020 SDP are consistent with a logic of transforming and modernizing Tunisia's long-term economic model aimed at bringing the average labour force unemployment rate down from 15.4% in 2015 to 11.5% in 2020. To achieve that objective which presupposes a return to an average growth rate of 5% by 2020, the plan provides for an increase in the investment rate from 19.5% in 2015 to 25% of GDP by 2020, based on an increase in the public investment budget but also on a significant rise in private investment in particular, in the context of public-private partnerships (PPP). The 2016-2020 SDP was officially presented to investors at the Tunisia 2020 International Conference held from 28 to 29 November 2016 which raised 34 billion dinars (EUR 14 billion) in public and private sector funding pledges. The detailed objectives of the 2016-2020 SDP are set out in Annex 2 of this report

B. CHALLENGES AND WEAKNESSES

2.2.4 Post-Revolution Tunisia still faces many challenges.

➢ The Restoration of Security

2.2.5 The first of these challenges consists in maintaining optimal security throughout its territory. Security has been undermined by the Libyan crisis and three successive attacks in 2015, which seriously affected the economy, especially tourism. Tunisia must not only ensure the security of people but also of property, in particular enterprises and industries, as well as public property. In the medium-term, maintaining the conditions for optimal security will require an increase in defence and security spending, thus implying strategic budget trade-offs.

➢ The need for Fresh Impetus to Employment

2.2.6 The second challenge lies in the need to reduce the unemployment rate which, in spite of government recruitments since 2011, affected 15.4% of the labour force in 2015 and 28.6% of graduates - 2 points higher than the average pre-Revolution rate (13.6%). However, a strong structural aspect underpins the issue of under-employment in Tunisia. Tunisia does not generate enough jobs annually to absorb the flows of new entrants to the labour market. This market is highly regulated and is affected by the mismatch between businesses requirements and the skills of first time job seekers. This problem calls for comprehensive reform of education policy – since the quality of education in Tunisia had declined in OECD's most recent PISA ranking – and stronger efforts to promote technology and vocational training. This will provide young people who have failed at school with an opportunity to learn a trade that will facilitate their integration into the labour force. It is also necessary to engage in reflection on how to make the labour market more fluid through adjustments to labour law.

➢ Reduction of Regional Disparities

2.2.7 Five years later, the wide historical regional disparities, which counted among the factors that triggered the January 2011 revolution, have, for the moment, only been marginally reduced. In addition to the key issue of access to employment for the inhabitants of hinterland regions, it is essential to restore the balance between the coastal regions and regions of the interior. This rebalancing could be achieved by redeploying public spending in favour of investment and building implementation capacity at the governorate level.

2.2.8 It is also necessary to prepare effective implementation of the decentralization anchored in the January 2014 Constitution, which provides for the gradual transfer of some of the central government's functions to elected local governments that will be required to play a greater role in local economic development.

➢ An Economic Model to be Reformed

2.2.9 Achieving the objectives set in the 2016-2020 SDP presupposes changing Tunisia's existing economic model. This model will have to shift towards a more liberalized, less directed, more devolved and decentralized economic model that will particularly foster private sector development. To return to a growth level that is in line with its long-term potential, the diagnoses made since 2011 confirm that Tunisia must: (i) move up the value-added ladder by developing a strategy to increase the range of products and processes; and (ii) create more value-added by developing, strengthening and diversifying the value chains based on the systemic and rational exploitation of existing potential especially in the regions[13]. The use of the subsector/value chains/clusters approach as part of a new industrial policy and the revamping of incentives

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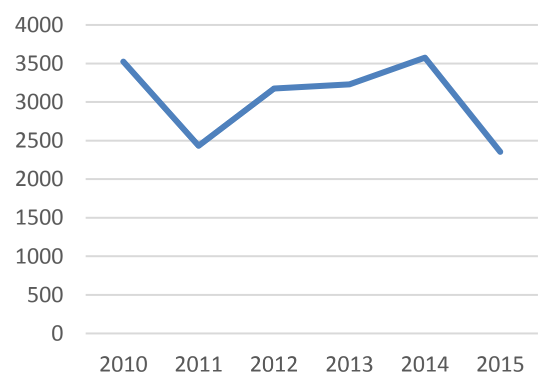
[13] Especially in the agricultural sector (olive oil, medicinal plants, non-wood forest products, etc.) but also in sectors such as marble, ceramics or gypsum.

aimed at increasing the proportion of processing carried out locally should contribute to more inclusive regional development.

2.2.10 A change in the economic model is also necessary to remove two of the major constraints that the country currently faces. The first is linked to the downward trend in oil prices, which is expected to lead to a slowdown in the oil industry - until recently the main focal sector in terms of FDI and exports.

2.2.11 Tunisia also faces the depletion of its gas resources, which should result in changes to the structure of the existing energy model and greater use of renewable energies (see Annex 8). The second constraint is linked to the sharp contraction of the tourism industry which has traditionally been a key driver of growth and employment (395,000 direct and indirect jobs) as well as one of Tunisia's main foreign exchange earners (see Figure 5). The gradual deterioration of security conditions as well as the occurrence of the 2015 attacks have resulted in a loss of about 1 billion dinars in tourism revenue for the Tunisian economy over the 2014-2015 period, that is, a drop of about 30% compared to 2010.

Figure 5: Trend of Tourism Sector Income (in Bil. DT)



2.2.12 To take this new factor into account, it will be necessary to reposition the economy and seek new growth drivers to temporarily offset the expected drop in value added and employment in these two sectors.

Agriculture and the rural-related economy could become a new source of growth. However, there is need to shift first from the existing productivity-based agricultural development model towards a more inclusive model that focuses on the development of existing opportunities at the local level.

➢ Geographical Diversification

2.2.13 Since it embarked upon reforms in the mid-1970s, Tunisia has chosen to open up its economy and anchor its development on the European model. Until now, this has been a wise decision given the quasi-exponential increase in Tunisia's exports to the European Union (EU) with a tenfold increase in the value of exports to that zone. However, the Eurozone crisis has had a considerable impact on Tunisia. Europe – mainly France, Germany and Italy _ is both Tunisia's main historical client from a trade standpoint but also its leading foreign investor in terms of volume and value. It could be profitable to begin to diversify towards other markets and other trading areas to mitigate the risk of the economy's dependency on the uncertainties of the European economic situation. Like Morocco and Egypt, Tunisia must also take up the challenge of integrating more closely into the rest of the African continent in order to develop business streams as well as promote its expertise. The health and education sectors are now emerging as major sources of foreign exchange for the country in the context of its cooperation and partnership with Sub-Saharan Africa.

C. STRENGTHS AND OPPORTUNITIES

2.1.14 In spite of the low growth posted since 2011, Tunisia offers several other strengths and opportunities.

➢ Proximity to the European Market

2.2.15 Tunisia's main strength is its proximity to Europe, which is currently its leading client and main provider of foreign direct investment (FDI).

➢ An Important Potential in Natural Endowments

2.2.16 The country has significant mineral deposits (phosphate) and hydrocarbons (oil and gas), which represent major sources of foreign exchange. These deposits have resulted in the development of a major extractive industry which, in 2014, represented 10% of GDP and contributed to the country's energy supply and autonomy with the gas produced in Tunisia meeting 53% of the country's demand for energy and accounting for 25% of exports.

➢ A Developed Economic and Industrial Base and a Skilled Labor

2.2.17 Tunisia has a network of high quality public infrastructure and services in the areas of energy, transport, water, etc. despite the major constraints imposed on these structures since 2011 in terms of recruitment and contribution to the central government's financial efforts (cash flow, payment arrears) that have deteriorated their financial situation and lowered their profitability. The country benefits from a highly developed and diversified industrial fabric (aeronautic, agro-food, textile, mechanical industries and pharmaceutical products, etc.). Tunisia is ranked 47th (out of a total of 124 countries) in terms of economic complexity and first on the African continent[14]. As a result of the important investments in education and vocational training during the last three decades, Tunisia benefits also from a well-trained labour in certain sectors (information and communication technologies (ICT), electro-mechanical, etc.). In addition, an analysis of Tunisia's product space shows that its economy has a high productive capacity[15]. The results of the analysis of Tunisia's position in the 2014 Product Space is in keeping with its level of economic complexity. Furthermore, Tunisia has rapidly succeeded in upgrading its technology and launching new products on the export markets. The 2014 product space shows that innovations have been made and seen in the electronics and machinery sectors. This arrangement shows that firms have succeeded in climbing the value-added ladder. These major unexpected technical changes compared to the arrangement of products in 1980 may be due to Tunisia's opening up to international trade and investment areas which were initially relatively closed.

2.3 AID COORDINATIONAND AfDB POSITIONNING IN THE COUNTRY

A. AID COORDINATION AND HARMONIZATION

➢ Aid Typology

2.3.1 Despite its Middle Income Country (MIC) status, Tunisia receives considerable development assistance flows. These assistance flows have increased since the 2011 Revolution in a bid to support the country during its transition. Tunisia is the recipient of both multilateral and bilateral aid. At the multilateral level, in addition to the African Development Bank which, as at March 2016, was Tunisia's lead donor with 10.15% of its public debt, 16% of its external debt and 32.3% of its multilateral debt, the country receives financial support from the European Union (EU), the World Bank, the European Investment Bank (EIB), the Islamic Development Bank (IsDB), the European Bank for Reconstruction and Development (EBRD), and the United Nations Development Programme (UNDP). Since June 2013, the country has also benefited from International Monetary Fund (IMF) assistance. At the bilateral level, the main donors engaged in Tunisia are France through the French Development Agency (AFD), Germany

[14] The economic complexity of a country is dependent on the complexity of the products it exports. A country is considered 'complex' if it exports not only highly complex products (determined by the product complexity index), but also a large number of different products. The most complex products are sophisticated chemicals and machinery, whereas the world's least complex products are raw materials or simple agricultural products.

[15] An analysis of the position of a given country in the product space gives an idea of its economy's existing capacities and externalities in general and its industry in particular. For more information see http://atlas.cid.harvard.edu/.

(GIZ and KFW), Japan, Italy and, to a lesser extent, the United Kingdom and Spain. Since 2011, Tunisia has also received sporadic support from non-traditional donors including Qatar, Turkey and Algeria. A thematic presentation of donors' commitments in Tunisia is provided in Annex 3.

➢ Coordination and Harmonization

2.3.2 Aid coordination remains a problem in Tunisia. Weak coordination between development partners is the result of the pre-2011 policy pursued by the Tunisian authorities that sought to "compartmentalize" donor operations by sector, thus making it difficult for them to engage in dialogue with each other. These practices have persisted after the Revolution. They should, however, gradually decrease under the new 2016-2020 Strategic Development Plan (SDP) and the widespread introduction of programme-based budgets under the new Organic Budget Law that Parliament is expected to enact in 2017. Among others, this law should result in a closer alignment between the planning, budgeting and programming of resources in respect of external financing. However, it is worth noting that, in the area of budget support, there has been both functional and operational coordination in terms of the content and calibration of reforms between the World Bank, European Union and the Bank since 2011, then under the oversight of the IMF, following the effectiveness of the first staff-monitored programme in June 2013.

B. BANK'S POSITIONING IN THE COUNTRY

➢ Partnership Framework

2.3.3 Tunisia is a historical partner and one of the Bank's five (5) leading borrowers. Furthermore, it hosted the Temporary Relocation Agency (TRA) from 2003 to 2014, and now hosts the Bank's North Africa Regional Department (ORNA).

Since 1968, Tunisia has received UA 5.747 billion to finance projects and programmes (excluding grants), which makes it one of the main beneficiaries of the Bank's financing and advisory services. While the Bank operates in varied and strategic areas (transport, energy, water and sanitation, agriculture and the financial sector, etc.), it has since 2011 opted to give preference within these sectors to projects with strong impacts on regional disparities. In addition, to AfDB's significant financial contribution to Tunisia's development, the variety of instruments mobilized and the presence in Tunisia of a multidisciplinary team will allow the Bank to adopt a holistic approach in terms of strategic policy dialogue. Hence, the Bank is engaged in sustained dialogue with the authorities both in terms of identification of operations and reforms, as well as public policies to be funded through budget support and technical assistance operations.

➢ Status of Bank Portfolio in Tunisia[16]

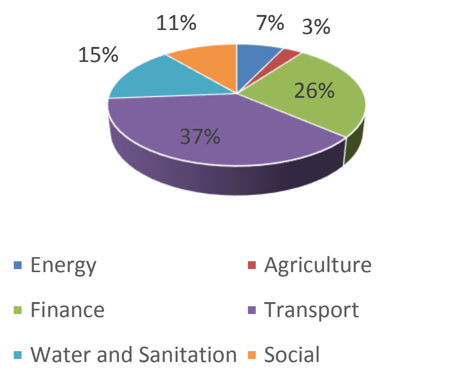
2.3.4 As at 1 March 2017, the Bank Group's active portfolio comprised 43 operations. 37 concerned the public sector (including 26 technical assistance operations) and six (6) in the private sector. Total commitments were UA 1.33 billion.

2.3.5 Grants totalling UA 28.2 million represented 2% of the overall portfolio. In comparison, the portfolio comprised 40 operations representing total commitments of UA 1.35 billion at the previous review in May 2016. The portfolio disbursement rate is 64% (45.6% in 2016), 80% of which concerned the private sector and 65% the public sector (average age: 2.3 years) excluding technical assistance. Overall, the loan portfolio performance (with an average age of 2.4 years) is satisfactory. The portfolio's averaged weighted score is estimated at 3.38 on a scale of 1 to 4. On the other hand, the performance of technical assistance grants requires

[16] See the Combined 2014-2016 CSP Completion Report and Portfolio Performance Review approved by CODE on 11 November 2016 for a detailed portfolio performance analysis.

improvement[17]. The disbursement rate is 13% for an average age of 2.8 years.

Figure 6: Sector Breakdown of Portfolio(As at 1st April 2017)



2.3.6 Concerning the portfolio's composition excluding technical assistance operations (see Figure 6), as at 1 March 2017, the transport sector accounted for 37% of Bank commitments, followed by the financial sector (26%), the water and sanitation sector (15%), social sector (11%), the energy sector (7%) and the agricultural sector (3%). It must be stressed that Tunisia's overall electrification rate is about 99%.

2.3.7 Since 1984, the Bank has contributed UA 446 million to the development of energy and UA 389 million to the development of agriculture in Tunisia. The Bank's private sector financing has mainly been invested in energy, infrastructure and the financial sector (lines of credit) (see Annex 19).

III. BANK GROUP STRATEGY FOR TUNISIA OVER THE 2017-2021 PERIOD

3.1 RATIONALE FOR BANK'S GROUP INVOLVEMENT

3.1.1 Five years after the 2011 Revolution, Tunisia's economy remains fragile. Attempts made to revive it through public spending have not always produced the expected results in terms of growth and job creation and have created significant macroeconomic imbalances. Unemployment, particularly among the youth, has risen since 2010 and wide regional disparities persist. A donor community-supported cycle of reforms was triggered during the transitional period (2011-2015) but is seriously inadequate and must be accelerated during implementation of the 2016-2020 SDP. The acceleration of reforms and increase in public-private investment are the main prerequisites for the success of the SDP, and require considerable support from the international community and Tunisia's technical and financial partners (TFP) including the Bank. There is also close convergence between the Bank's five priorities (HI5s) and the SDP's areas of focus.

A. PILLARS AND FOCUS AREAS OF CSP 2017-2021

➢ Lessons Learned from the Bank's Previous Actions in Tunisia

3.1.2 **Post-evaluation of the Bank's assistance to Tunisia over the 2004-2014 Period**. The evaluation of Bank assistance to Tunisia over the 2004-2014 period conducted by the Bank's Independent Evaluation Department (IDEV) from May to June 2016 confirmed the consistency and overall relevance of the Bank's operations' strategy for Tunisia, based on a combination of budget support operations, productive sector investments and non-lending support operations (technical assistance, advisory support and analytical work) throughout the period concerned. While it recognized that a significant break had occurred in January 2011 affecting the capacity of the central government to intervene effectively, the evaluation did, however, recognize the Bank's contribution to dialogue on reforms following the rapid deterioration of the economic situation and recommended that the dialogue be intensified during implementation of the new 2017-2021 CSP.

[17] Following the most recent portfolio review in May 2016, a Portfolio Performance Improvement Plan (PPIP) was prepared and has been closely monitored with the Tunisian Authorities (see Annex 21). About 10% of non-performing grants were cancelled between January and December 2016. Measures aimed at improving the quality at entry of technical assistance operations have also been taken and, in particular, concern, stronger ownership by the authorities and acceleration of the procurement process.

3.1.3 In addition to the key structural reforms mentioned earlier, special efforts should be made in terms of financial sector reform to improve financial inclusion and mitigate the systemic risk to the real economy. In this regard, the evaluation underscored the need for the Bank to adopt a programme-based approach for its budget support operations, while backing strategic dialogue that should include the private sector. The Bank should also strengthen the inclusive nature of its strategies and its operations by improving selectivity and targeting. This will enable it to obtain sustainable outcomes and invest in capacity building at the central and regional level, as well as in executing agencies. Lastly, it is recommended that the Bank draw lessons from its operations in Tunisia's agricultural sector by adopting a subsector approach that will provide a response to the overall problems experienced by Tunisian agriculture.

3.1.4 **Completion of the 2014-2016 Strategy**. The 2014-2016 Interim Strategy performance evaluation offered a number of lessons.

3.1.5 Firstly, it confirmed the relevance of the two, 2014-2015 ICSP pillars (governance and infrastructure), pointing out that they corresponded to Tunisia's priorities when the ICSP was formulated in 2013. However, it established that the absence of any medium-term strategy since 2011 had seriously undermined the effectiveness of the economic policies implemented by the different governments by giving preference to the short-term (recurrent expenditure) over the long term (capital expenditure). It also stressed the importance of not under-estimating the impact of the political climate on the Bank's strategies and recommended that closer attention be paid to political risk when defining the results matrix. Lastly, it recommended more accurate targeting and greater selectivity in Bank interventions, articularly through the rationalization and prioritization of technical assistance operations.

➢ Pillars and Focus Areas

3.1.6 Over the 2017-2021 period, the Bank will provide support to the implementation of the Strategic Development Programme (SDP) through two (2) main pillars and five (5) focus areas closely aligned on the Bank's 2013-2022 Long-Term Strategy and its High 5s. In addition to their alignment on the High 5s, the two pillars were selected based on lessons drawn from implementing the two interim strategies. Indeed, despite the recovery policies implemented since 2011, a continuing high unemployment rate, especially among young people and the announced saturation of civil service job opportunities require an increase in the number of jobs created in the commercial sector, particularly in industry and services, while concomitantly encouraging self-employment by providing support to the establishment of micro- and small-sized enterprises including start-ups in the new technologies and innovation sector.

3.1.7 It is also necessary to pursue and scale up efforts to reduce regional disparities and improve the living conditions of the populations of the governorates in the interior by upgrading basic infrastructure (roads, schools hospitals, etc.). In addition to the immediate benefits for the communities concerned, the improvement of living conditions and upgrading of infrastructure must in time encourage the start-up of businesses in the governorates and improve the mobility of public employees.

3.1.8 **Therefore, the main objective of the 2017-2021 CSP to which the two pillars will contribute will consist in reducing the unemployment rate at national and regional level.** In this regard, the Bank will align its strategy on the objective retained in the 2016-2020 Strategic Development Plan (SDP) Guidance Note to reduce the average national unemployment rate from 15.4% in 2016 to 11.5% by 2020.

Table 1: Focus Areas of CSP 2017-2021

Pillar I	**Industrialization and local value chains development**	
	Focus Area 1	Improvement of the business climate and competitiveness
	Focus Area 2	Skills building and employability
	Focus Area 3	Inter-regional integration and Tunisia's integration with the rest of the world
Pillar II	**Improvement of the quality of life for the people of priority regions**	
	Focus Area 1	Support to decentralization and to inclusive local development
	Focus Area 2	Improvement of the living environment in the priority regions

Pillar I - Industrialization and Value Chains Development

3.1.9 Under Pillar 1, the Bank's objective will be to improve the cost and non-cost competitiveness of Tunisian industry as well as the business climate through a macroeconomic and sector reform support operation aimed at significantly increasing private investment, including FDI, and at anchoring the principle of public-private partnership (PPP) in investment policies by strengthening public-private sector dialogue (PPD). As such, close attention will be paid to polices and reforms to be implemented that will contribute to the control and/or reduction of factor costs (labour, capital, financial services and communications, etc.). Furthermore, the Bank will provide Tunisia with support to update its industrial and innovation policy. To that end, it will support ongoing reforms aimed at modernizing the education system and matching training supply with the needs of industry and businesses in the medium to long term. To support industry, the Bank will develop and upgrade strategic infrastructure (roads, ports, multimodal transport and digital, etc.) in order to open up priority regions and markets, improve the movement of goods and people, and facilitate value chains development. The Bank will also implement actions to facilitate trade with the countries of North Africa, Sub-Saharan Africa, Europe and the rest of the world, and will develop trading hubs and best practices in support of exports.

Pillar II – Improvement of the Quality of Life for the People of the Priority Regions

3.1.10 Under Pillar II, the Bank's objective will be to support decentralization particularly by strengthening local government, devolved central government services and public services in the priority regions to enable them to play a more active role in economic development while improving the quality of their service delivery to the population. To this end, the Bank will prioritize the strengthening of public investment in basic socioeconomic infrastructure in the priority regions. It will also back government's efforts to support young people with few or no qualifications to facilitate their integration into the labour market and/or to develop their own businesses. At the same time, the Bank will endeavour to transform the rural economy in priority regions by supporting local value chains and modernizing activities in the agricultural, livestock and fisheries sector, and through support to the development of networks of micro-, small- and medium-sized enterprises (MSME) by improving access to financial services and advisory services in corporate development.

➢ Preparation Process

3.1.11 The 2017-2021 CSP was prepared and its pillars selected following a broad-based consultation process with the Tunisian party. It began with the preparation of the Combined 2014-2016 Interim Country Strategy Completion Report and 2016 Portfolio Performance Review. A joint AfDB - Tunisian Government workshop in which civil society representatives participated was organized on 10 May 2016 to discuss the results achieved by the 2014-2016 ICSP, evaluate the ongoing portfolio's performance and discuss the general directions and pillars of the new 2017-2021 CSP.

➢ Operational Approach and Guiding Principles for Intervention

3.1.12 The 2017-2021 CSP will be implemented in compliance with a number of principles established from the conclusions of previous Bank operations. A *"filter"* will be prepared that will verify the compliance of projects and programmes with the operational principles presented below.

3.1.13 **Contribution to employment and the private sector.** Actions financed by the Bank must have a significant content in terms of direct and/or indirect jobs, and a leveraging effect on private sector development through the generalization of management contracts. This contribution to employment and the private sector must be accurately assessed and negotiated at the time of project identification and preparation, including upstream with ministerial departments and executing agencies. An evaluation of the impact of Bank-funded projects on employment will be conducted in early 2017 to fine-tune the analytical criteria.

3.1.14 **Targeting and selectivity**. The Bank will carry out targeting as part of its annual programming to retain its financing for the sixteen (16) priority governorates under the IRD project to help reduce regional disparities. In the case of countrywide projects, the commitment ceiling for regions defined as non-priority may not exceed 20%[18] of the total planned financing. National projects with a medium-to-long term positive impact on the inter-connectivity of North African countries and connectivity with Sub-Saharan Africa and Europe, Tunisia's natural markets will be given preference. In line with its desire to improve the targeting of its operations, the Bank will be more selective in its choice of operations to be financed. The selectivity principle will be applied both to the lending and non-lending programme.

3.1.15 **Private sector and entrepreneurship support.** The Bank will prioritize private sector and entrepreneurship support under the 2017-2021 CSP in terms of the level of financing and of advisory support to be provided to entrepreneurs, and strategic dialogue (see Annex 11). In this regard, it will support the rollout of the *Souk-at-Tanmia* Programme throughout Tunisia through the establishment of a Centre for Entrepreneurial Excellence (CEE) (see Annex 12). In addition to Tunisia, this centre will aim to disseminate the achievements and replicate the *Souk-at-Tanmia* concept across North Africa and other parts of the continent. Furthermore, in accordance with the IDEV evaluation recommendation, the Bank will open a specific dialogue space for private sector operators possibly in the form of six-monthly or annual meetings. Lastly, the Bank will make an annual appropriation for funding private sector operations either through direct financing or equity participations in capital, or through lines of credit awarded to banks.

3.1.16 **Balance between programme and project support**. To comply with the objectives of PSD 2016-2020, which aims to significantly boost public investment, the Bank will opt for a 70/30 ratio between loans awarded for investment and lending in support of structural reforms.

3.1.17 **Catalysing effect**. In consultation with the Tunisian Authorities, The Bank will adopt a catalytic approach by systematically seeking co-financing from technical and financial partners (TFP) for operations that it seeks to finance, particularly public investment projects.

3.1.18 **Efficient use of technical assistance and analytical work**. The Bank will provide evidence of targeting and selectivity in its choice of technical assistance operations and analytical work. The latter will be closely aligned on the 2017-2021 CSP objectives. The volume of technical assistance approved each year will be subject to the performance of the ongoing technical assistance portfolio.

[18] With the exception of private sector and financial sector projects.

3.1.19 An identical principle of selectivity will be applied for analytical work that will focus on assistance to public decision-making.

➢ Resources

3.1.20 For the 2017-2021 CSP's implementation, the Bank is planning to provide Tunisia with an indicative amount of between UA 300 million and UA 350 million over the 2017-2019 period and UA 400 million in 2020 and 2021, that is, total commitments of between UA 1.8 and 2 billion. Other resources will be mobilized from the AGTF window in respect of co-financing in the infrastructure sector. The Bank will also mobilize thematic trust fund resources to finance technical assistance operations and conduct analytical work as well as dedicated climate and environmental funds (Green Fund, Climate Fund, Global Environment Facility, etc.) and resources allocated to PPP development. It will also seek to mobilize special funds as well as funds established by the EU intended to prevent migration to Europe from North Africa. The total amount allocated to the 2017-2021 CSP will be updated yearly based on several specific parameters for Tunisia and the Bank, including the sovereign rating and increase in the Bank's business volume in all regional member countries.

3.2 TARGETS AND EXPECTED OUTCOMES.

3.2.1 The 2017-2021 CSP will be closely aligned on the 2016-2020 SDP. Consequently, the main expected outcome following implementation of the 2017-2021 CSP will be a reduction in the average unemployment rate from 15.4% in 2015 to 11.5% by 2020, which is in line with the targets set by the Tunisian Authorities and the assumptions underpinning the SDP, in particular, the return to average growth of 5% by 2020. In order to achieve these outcomes, the Bank will implement a lending programme and also an ambitious analytical work programme. The lending programme is presented in Annexes 1 and 2 and the analytical work programme in Annex 4.

3.2.2 **Pillar I.** There are two expected outcomes under Pillar 1. The first outcome will consist in the improvement of the overall competitiveness and productivity of Tunisian industry, the industrial value added (IVA) of which will increase by at least 20% by 2020. This objective will be achieved through global action combined with the reduction of factor (labour, energy, water, telecommunications, etc.) and logistic costs (reduction in logistic costs representing 5% of GDP), significant improvement in the business climate reflected in a rapid gain of twenty (20) places in the annual *Doing Business* ranking and an 80% increase in FDI by 2020. The second outcome will be a qualitative improvement in the supply of labour provided by the Tunisian educational system through a closer matching of business demand with training supply from the education system. This will lead to a reduction in the unemployment rate of higher education graduates registered with the National Employment and Self-Employment Agency (ANETI) by an average of 33% in 2015 to 23% by 2020, with special attention to the regions. Concomitantly, through technological and vocational education activities, the CSP will improve the labour force participation rate of non-graduate youths by an average of 30% by 2020, especially in the priority regions.

3.2.3 **Pillar II**. Two main outcomes are expected under the second pillar of the 2017-2021 strategy. The first is an improvement in the quality of service provided by government services and local government, and in access by the population of priority regions to basic public services. In this regard, the Bank will work in partnership with the Tunisian Institute of Competitiveness and Quantitative Studies (ITCEQ) to establish a multi-criteria Quality of Life Index (QVI) at the regional level. The second expected outcome will be a 30% increase in the income of the population of the priority governorates by 2020 through a holistic development strategy for the regions. Such development will cover the whole spectrum of existing investment opportunities through increased exploitation of local agricultural and non-agricultural value chains (marble, ceramics, agro-food, etc.).

At the same time, priority will be given to the establishment and strengthening of the entrepreneurial ecosystem for women and young people by providing support to MSME, and improving market access.

3.2.4 **Monitoring and Evaluation.** The progress made in implementing the 2017-2021 CSP's objectives will be monitored and evaluated based on the results measurement framework (see Annex 1) which is fully in keeping with the objectives of the 2016-2020 Strategic Development Plan (SDP). The Bank will organize a specific dialogue mission each year to review progress made with the Tunisian authorities towards achieving the Plan's objectives. In this area, in addition to the results measurement framework, the Bank will also rely on the monitoring/evaluation system established for the 2016-2020 PSD at the Ministry of Development, Investment and International Cooperation (MDICI). These missions will coincide with Country Portfolio Performance Reviews (CPPR). The Bank will conduct the CSP Mid-Term Review in June 2019 to confirm the relevance of the pillars to the country's development objectives. A completion report will be prepared following the CSP implementation phase in June 2021.

3.3 DIALOGUE THEMES

3.3.1 The main dialogue issues with the Tunisian authorities during implementation of the 2017-2021 CSP will focus on the adaptation of Tunisia's economic and social model to the new regional and international challenges. Since 2011, these issues have been the focus of the Bank's dialogue with the Government alongside the development partners, and advocacy activities developed at the thematic conferences and meetings in which it is frequently invited to participate on major challenges facing the reforms.

3.3.2 In connection with the strategy's main objective, the Bank will pay close attention to employment and labour market reform and, to that end, will embark upon a series of analytical studies aimed at enriching strategic dialogue with stakeholders. At the operational level, dialogue will focus on portfolio performance and removal of constraints with a view to accelerating project implementation rates. Special attention will be paid to the continuing restructuring of the non-lending portfolio in order to increase the implementation rate of the said portfolio to 50% by 2019 and to 75% by 2021.

3.4 RISKS AND MITIGATION MEASURES

3.4.1 Three types of risk could compromise the expected impact of the Bank's assistance strategy over the 2017-2021 period.

➢ Political Risk.

3.4.2 Despite a successful political transition, Tunisia's political and social context remains unstable and the balances achieved following the October 2014 legislative elections fragile. Therefore, the confidence expressed by the ARP on 26 August in Youssef Chahed's National Unity Government (NUG) must be seen as a positive sign of awareness by the entire political class of the gravity of the country's situation, and the need to embark upon a cycle of structural reforms that will help Tunisia to emerge from the current economic crisis. Nevertheless, to address the expected social cost of some of the reforms, especially those concerning the central government and the civil service, and the social disturbances that could emanate from them, the coalition of parties in support of the Chahed cabinet could disintegrate, making the formation of another government or the holding of early legislative elections inevitable.

3.4.3 This uncertainty at both the political and trade union levels could seriously undermine the economic plan and compromise the recovery efforts. While the partial or total mitigation of this risk is by its very nature problematic, it should require the Bank along with the technical and financial partners (TFP) present in Tunisia to engage in very high-level political dialogue with political officials, Tunisian authorities, civil society representatives and the UGTT on the need to define and implement a social pact throughout the 2016-2021 period in order to provide the government with some fiscal leeway and to restore the competitiveness of Tunisia's businesses and economy.

➢ Macroeconomic Risk.

3.4.4 The second risk is *macroeconomic*. It could arise following the incomplete implementation of the Strategic Development Plan (SDP) both at the level of the investment objectives on which the recovery of growth depends, and on the reforms (particularly the strategic reform of central government and the civil service). These reforms are intended to create a new fiscal space that could be allocated to public investment as a priority, in order to strengthen the competitiveness of the economy and foster growth and employment. The Bank, alongside the development partners (especially the IMF, the World Bank and the European Union) will maintain permanent dialogue with the Tunisian authorities, especially in the context of its budget support operations, in order to mitigate this risk. Furthermore, since Tunisia's growth is closely linked to Europe's economic health, it could be affected by the possibility of shocks similar to the 2009 financial crisis. In order to mitigate this risk, the Bank will support the establishment of a strategy to diversify Tunisia's trade with North Africa in particular by providing technical assistance to the Ministry of Trade and Industry.

➢ Security Risk.

3.4.5 The third risk likely to affect implementation of the 2017-2021 strategy is *security-related*. Until a political solution is found to the crisis in Libya, Tunisia will have to step up its efforts to maintain optimal security nationwide, to guarantee and protect the recovery of investment, among others. Implementation of the IMF Programme could, however, prevent the central government from fulfilling its territorial protection mission. To minimize this risk, the Bank should sensitize the Tunisian authorities on the need to ring-fence the interior and defence budgets by enacting a multi-year programming law. From 2017, the Tunisian authorities may also have to manage the return of Tunisian combatants from Syria, which could constitute a major destabilizing factor. While criminal justice responses are, for the most part, expected, the Bank could, where necessary, back the Authorities' efforts to reintegrate the ex-combatants into the labour market through specific support programmes.

IV. CONCLUSIONS AND RECOMMENDATIONS

4.1 The 2017-2021 CSP for Tunisia is aligned on the Government's 2016-2020 Strategic Development Plan (SDP) whose objective is to put the Tunisian economy back on the path of sustainable, inclusive and job-creating growth by 2020. The CSP is also aligned on the Bank's 2013-2022 Long-Term Strategy, the sector strategies approved recently and the High 5s. The stated objective of CSP 2017-2021 is to support the Tunisian authorities in establishing favourable conditions for job creation. To achieve this objective, the 2017-2021 CSP will mobilize an envelope of between UA 1.5 and 1.8 billion over five (5) years to support investment and policy-based programmes focused on two (2) pillars - (i) *Support to industrialization and value chains* and *(ii) improvement of the quality of life in the priority regions.* Apart from ADB window resources, the Bank will also endeavour to secure AGTF resources for the strategy in addition to other bilateral and multilateral sources of financing as well as general or thematic trust funds at the Bank.

4.2 Management invites the Board of Directors to consider and approve this 2017-2021 Country Strategy Paper (CSP) for Tunisia.

ANNEXES

ANNEX 1 – INDICATIVE PROGRAMMING BY PILLAR (2017-2019)							
LENDING PROGRAMME							
Pillar I – Industrialization and Support to Local Value Chains							
Sector	**Dpt.**	**HI5**	**Project Name**	**Instrument**	**Amount (MUA)**		
					ADB	**AGTF**	**Total**
2017							
Transport	PICU	HI5	Project to Improve Road Connectivity in the North-West	Investment	70	30	**100**
Telecoms	PICU	HI5	Support to the Digital 2020 Strategy	Investment	50	30	**80**
Education	AHHD	HI3	Programme to Support Technical and Technological Skills Development	Investment	60		**60**
Non-sovereign	PFID	HI3	Line of Credit to Hannibal Lease	Investment	6,5		**6,5**
Non-sovereign	PIFD	HI3	Line of Credit to finance SME	Investment	38,5		**38,5**
Non-sovereign	PISD	HI3	Fertilizer Production Project	Investment	15		**15**
Total 2017					**240**	**60**	**300**
2018							
Energy	PENP	HI3	Electricity Network Development Programme	Investment	60	30	**90**
Water and Sanitation	AHWS	HI5	Sanitation Project for 30 Priority Municipalities	Investment	40	30	**70**
Multisector	ECGF	HI3	Industrial Competitiveness and Business Climate Support Project (1st tranche) (programme-based support)[19]	Budget Support	50		**50**
Multisector	PIFD	HI3	Financial Sector Modernization Support Programme II (PAMSFI II) - (1èt tranche) (programme-based support)	Budget Support	50		**50**
Non-sovereign	PISD/PIFD	HI3	Private Sector Support/Line of Credit	Investment	60		**60**
Total 2018					**260**	**60**	**320**
2019							
Transport	PICU	HI5	Road Infrastructure Modernization Programme II (PMIR II)	Investment	50	30	**80**
Multisector	PICU	HI3	PAMSFI II – (2nd tranche)	Budget Support	50		**50**
Multisector	ECGF	HI3	Industrial Competitiveness and Business Climate Support Project (2nd tranche)	Budget Support	50		**50**
Non-sovereign		2019	Private Sector Support/Line of Credit	Investment	60		**60**
Total 2019					**280**	**50**	**330**
Pillar II – Improvement of the Quality of Life of People in Priority Regions							
2017							
Agriculture	AHHR	HI2	SIA Development Project	Investment	30	10	40
Multisector	AHHD	HI5	Inclusive Regional Development Support Programme II (PADRI II)	Budget Support	100		**100**
Total 2017					**130**	**10**	**140**

[19] Implementation of budget support operations will depend on the progress made in terms of structural reforms and on the implementation performance of the IMF programme

2018							
Multisector	AHHD	HI5	Project to Support Economic Development, Entrepreneurship and Employment in the Priority Governorates	Investment t	50	30	80
Agriculture	AHHR	HI2	Olive Oil Subsector Support Project	Investment	40		40
Total 2018					**90**	**30**	**120**
2019							
Agriculture	AHHR	HI2	Rural Economy Transformation Support Project	Budget Support	50		50
Governance	ECGF	HI5	Project to Strengthen Deconcentrated Services Services and New Municipalities	Investment	50		50
Total 2019					**100**		**100**
Total Pillar I 2017-2019					**780**	**170**	**950**
Total Pillar II 2017-2019					**320**	**40**	**360**
Total 2017-2019 Pillars I + II					**1100**	**210**	**1310**

ANALYTICAL WORK PROGRAMME[20]	
2017	
Pillar I	Public Spending Review Industrial and Innovation Policy Evaluation Study on the Optimization of Industrialization in Tunisia
Pillar II	Study on the Establishment of Annual Growth Statistics at Governorate Level Study on the Establishment of a Quality of Life Index (QLI) (pilot)
2018	
Pillar I	Study on Tunisia's Structural Transformation (transition from lower-to-upper MIC) Study on Tunisia's Trade Integration with Africa Study on Labour Market Modelling in Tunisia
Pillar II	Flagship Study on Rural Economic Transformation
2019	
Pillar I	Study on Skill Needs of Industry and the Private Sector up to 2030
Pillar II	Study on Agro-Food Industries

[20] Also refer to Annex 4 for a detailed description of the Analytical Work Program.

Annex 2: TUNISIA – 2017-2021 CSP RESULTS FRAMEWORK

Objectives of 2016-2020 SDP	Main Constraints	Actions under 2017-2021 CSP	Expected Outcomes (qualitative)	Output Indicators	Baseline	Expected Outcomes (*)[21]		Linkages with LTS and HI5
					2015	At Mid-Term (2019)	In 2021	
PILLAR I – INDUSTRIALIZATION AND SUPPORT TO LOCAL VALUE CHAINS								
Promote good economic governance and reforms	Instability of the macroeconomic framework and directions of current tax and fiscal policies are not conducive to long-term growth and employment	Programme-based budget support for structural reforms[22], competitiveness and improvement of the business climate	Support to strategic reforms will in particular make budget savings and generate new resources to increase public investment.	Ratio of tax revenue/GDP (%)	25.5%	26.5%	28%	**Crosscutting link to HI5s**
				Fiscal balance (as % GDP) (+/-)	- 4.4%	- 4%	- 3%	
				GDP growth rate (%) (*)	0.8%	3%	5%	
				Average unemployment rate (%) (*)	15.4%	13%	11.5%	
	The low level of resources allocated to public investment prevents the development of the country's strategic infrastructure	Public spending review	Stabilization of the economy, increased private investment revitalized by the creation of leveraging effect from the establishment of PPP	Proportion of resources allocated to public investment in the budget (%)	16%	19%	20%	
				Investment rate (% GDP) (*)	18.5%	21%	25%	
				Number of operational PPP	1	3	5	
From low-cost economy to industrial hub	Deterioration of the quality of the business climate since 20111 is adversely affecting both national and internal private investment	Lines of credit to banking sector	Improvement of the business climate will contribute to the revival of domestic private sector domestic investment as well as FDI. The recovery of private investment will be supported by targeted lines of investment.	*Doing Business* classification (rank)	75th	55th	40th	**Industrialize HI5**
				Proportion of private investment in total investment (%) (*)	50%	55%	65%	
				Increase in FDI (% GDP) (*)	3%	4%	5.5%	
				Credit to private sector (% GDP)	75.9%	80%	90%	
	Competitiveness and total factor productivity (TFP) of the Tunisian economy have deteriorated since 2011.	Road Infrastructure Modernization Support Project	The construction of motorways and development of the railway network will facilitate the opening up of the country's territory, reduce travel times as well as the average cost of transport while facilitating access to local value chains	Global Competitiveness Index (GCI)[23] (rank/score 1 to 7) (*)	92/3.9	85/4.2	80/4.5	
		Railway Sector Modernization Support Project		Total Factor Productivity (TFP) (%) (*)	-	+1.5%	+ 2.5%	
				Number of km of motorways	420	800	1200	
				Proportion of logistic costs (as % of GDP) (*)	20%	17%	15%	

[21] Indicators with an (*) correspond to 2016-2020 SDP indicators

[22] In particular tax reform, labour market reform, reform of central government and public enterprises, civil service reform, financial sector reform and reform of the system of public subsidies to energy and staple products *(Compensation)*.

[23] Rank out of 140 countries covered by the annual survey carried out by the World Economic Forum (WEF)

	Industrial value added (IVA) remains low due to the positioning of industry in low value-added sectors	Industrial and Innovation Policy Assessment Study	Provide decision-makers with guidance on the sector positioning of industry and optimization of public resources allocated to support industry	Proportion of high technology sectors in GDP (%)	20%	25%	30%	**Industrialize HI5**
		Study on industrial specialization in Tunisia and the transition to higher value-added industry		Average value added of exporting sectors (%) (*)	15%	17%	20%	
	There is a considerable mismatch between the supply of labour trained by the Tunisian education system and demand of industry and businesses	Higher education and Research Reform Support Project	Gradual matching by 2020 between skill requirements at industry and business levels and training supply provided by the national educational system	Number of patents filed per year (units)	**Note**: According to the 2016-2020 PSD, the number of patents filed will double by 2020			
				Number of manufacturing sector jobs				
				Graduate unemployment rate (%)	32.7%	30%	25%	
		Technological Education Streams Support Project		Number of senior technicians trained and employed	-	+10%	+20%	
		Prospective study on requirements in terms of managerial staff and senior technicians for industry and the private sector by 2030						
		Study on the modelling of the Tunisian labour market						
PILLAR II – IMPROVEMENT OF THE QUALITY OF LIFE FOR PEOPLE OF THE PRIORITY REGIONS[24]								
Fulfilment of regions' ambitions	The persistence of wide regional disparities and development gaps between the regions and governorates hinder the promotion of inclusive growth	Deconcentrated and Public Services Skill Building Support Project	Improved efficiency of public expenditure management and performance of public services in the regions of the interior	Average budget execution rate in priority governorates (%)	30%	50%	75%	**Quality of life HI5**
				Regional Development Index (RDI) (average of 16 priority governorates)	**Note**: According to the 2016-2020 PSD, there will be a 30% reduction in the existing gap between the RDIs of coastal governorates and governorates in the interior			

[24] The activities described under Pillar II concern the 16 governorates considered to be priorities in the 2016-2020 according to the Regional Development Index (RDI)

		Local Investment Financing Support Project[25]	Local investment increased	Average investment rate of local governments (% budget)	-	+ 10%	+20%	
		Digital Tunisia 2020 Strategy Support Project	Improved attractiveness of regions	Average coverage rate of priority governorates in broadband (%) and fibre optics	80%	90%	100%	
				% of average investment in ICTs in priority regions	-	+5%	10%	
		Study on the definition of a Quality of Life Index (QLI) (pilot)	Availability of a complementary indicator specific to the RDI that will facilitate the adaptation and of public resources and their channelling towards the improvement of living conditions in the priority governorates					
	The economic development of rural regions is impeded by the absence of a holistic approach based on the development of agricultural and non-agricultural value chains	SIA Development Project	Increased agricultural yields	Increase in agricultural sector growth rates (%)	**Note**: According to the 2016-2020 PSD, there will be a 5% annual increase in the agricultural sector growth rate.			**HI5 Feed Africa**
		Olive Oil Subsector Support Project	Higher proportion of products processed in rural areas based on agricultural and non-agricultural value chains	Average growth rates in priority governorates (%)[26]	-	-	-	
		Rural Economy Support Programme	Boosting key reforms to support the rural economy will help to increase growth and employment in the governorates of the interior	Average investment rates (%)[27] in priority governorates	-	-	-	
				Average unemployment rates in priority regions (%)	-	-	-	
				Graduate unemployment rate in priority regions (%)	-	-	-	
		Study on agro-food industries	Formulation of recommendations to enhance the performance of agro-food industries, in particular for export. (*)					

[25] By strengthening the available resources of the Local Government Loan and Support Fund (CPSCL) to finance basic infrastructure projects such as waste management, urban road works, management of urban parks, rehabilitation of administrative buildings and infrastructure, equipment, etc.

[26] Data on this indicator will only be available when the study on the public accounting framework that will provide a regional growth statistic has been prepared.

[27] Same for this indicator.

		Flagship study on rural economic transformation	Provision of operational policy guidance to implement reforms aimed organizing and monitoring the rural economy and making it a new growth relay					
The Economy	Electricity produced in Tunisia is heavily dependent on fossil fuels (gas, oil)	Renewable Energy (solar and wind) support project	Prepare the energy transition and over time reduce the average generation cost per kWH for industry and businesses	Share of renewable energy in energy mix[i]	3%	7%	12%	**Light up and power HI5**
				Energy intensity (%)[28]	**Note**: According to the 2016-2020 PSD, there will be a 3%/year annual reduction in energy intensity by 2020.			
		Tunisia-Italy Interconnection Project	Improve the energy balance by selling electricity to Europe	Energy balance (in million dinars)	-180	0	+50	
	Climate change increases water stress and creates tension at the level of water resource management (meeting human versus economic needs)	Surface Water Harvesting Support Project	Increase in the volume of usable water resources by the population and economic operators	Water resource harvesting rate (% of total harvestable capacity) (*)	92%	-	95%	**Feed Africa HI5**
		Project to support the harvesting of non-conventional water resources (waste water and desalinized water)		Connection rate to public sanitation networks of municipalities covered by ONAS (%) (*)	86%	87%	90%	
				Recycling of waste water (%) (*)	-	+30%	+50%	

[28] Ratio between energy consumption measured in tonnes of oil equivalent (TOE) and GDP

Annex 3

Donor Focus Areas in Tunisia

	Human Development			Transport	Energy	Governance [29]	Financial Sector	Regional Dev.[30]	Water	Private Sector[31]	Natural Resources [32]	Agriculture [33]	CSO
	Education [34]	Employment	Health										
Multilateral Cooperation													
World Bank[35]													
AfDB													
EIB													
EU[36]													
EBRD													
UNDP													
IsDB													
Bilateral Cooperation													
AFD													
GIZ													
KFW													
Swiss Cooperation													
JICA													
USAID													

Note: The focus areas described cover the 2014-2016 period

29 Including budget support, strengthening the rule of law, justice, public finance management (PFM), local finances, public enterprises and reform of central government and government services

30 Including decentralization and support to local government

31 Including industry, MSME and handicrafts

32 Including climate change

33 Including fisheries and forestry

34 Including higher education and vocational and technological training

35 The World Bank approved its new strategy for the 2016-2020 period in October 2015

36 Like the Bank, the EU established a 2014-2015 interim strategy extended to 2016. Its new 2017-2020 strategy is being prepared.

Annex 4

Note on the Analytical Work Programme

1. **Context**. Since 2011, Tunisia has benefited from significant advisory support from the Bank. This advisory support has been in the form of diagnostic reviews, flagship studies, economic notes and research articles that have been widely disseminated amongst civil society and served as a basis for strategic dialogue with the Tunisian Authorities. These activities mainly financed from the Bank's administrative budget were supplemented by studies financed by the Middle Income Countries Technical Assistance Fund (MIC-TAF) and the Middle East and North Africa Transition Fund (MENA -TF). Tunisia has also benefited from the Bank's knowledge products such as the African Economic Outlook Report (AEOR) published annually as well as the Africa Competitiveness Report (ACR) but also from regionally-focused knowledge products. The Bank will continue to provide Tunisia with advisory support during the implementation of CSP 2017-2021. In a concern to rationalize and maximize the Bank's resources, this support will however be provided on a selective and targeted basis and will be strictly aligned with the two (2) pillars as well as with the CSP's five (5) focus areas. One of the thrusts of the economic and sector work programme will be to identify reform packages aimed at providing a basis for future budget support operations but also at building existing knowledge on themes not yet covered by Tunisia.

2. **Analytical work programme**. Based on discussions held with the Authorities and pre-identification work carried out during the preparation of the 2014-2016 Interim CSP, the indicative analytical work programme by Pillar for the 2017-2019 period is expected to be as follows:

3. **Pillar I**. The analytical work programme under Pillar I could comprise a public spending review carried out in partnership with the World Bank. The objective of this review would be to assess the efficiency and effectiveness of public spending in achieving the economic policy objectives defined by the government and to make recommendations on the optimization of public spending against a backdrop of increased budget constraints and on its role in the acceleration of growth. The programme would also include a study on the structural transformation of the Tunisian economy enabling the country to graduate from Low-Middle Income Country status to High-Middle Income-Country status. Another major study would concern the modelling of the labour market that would simulate the impact of a change in the institutional and legislative framework governing the functioning of the labour market in order to support the transformation of the Tunisian economic and social model. Two other studies concerned the assessment of the industrial and innovation policy and optimization of Tunisia's method of industrial specialization and transition towards a high value-added industry in accordance with the 2016-2020 PSD objectives. Finally, a prospective study would also be conducted on managerial staff and senior technicians required for industry and the private sector up to 2030 in order to more accurately focus the national training efforts.

4. **Pillar II**. Under Pillar II, the analytical work programme would comprise a pilot study on the establishment of an accounting framework at regional level that would facilitate the calculation of an annual growth statistic that would improve economic development management in the governorates. The work programme includes the definition of a Quality of Life Index (QLI) in the priority regions in partnership with the Tunisian Institute of Competitiveness and Quantitative Studies (ITCEQ) the objective of which will be to complement the existing disparity measurement indicators in particular, the Regional Development Index (RDI).

5. The programme under Pillar II will also include a flagship study on rural economic transformation, the objective of which will be to make recommendations on policies aimed at increasing the rural economy's contribution to economic growth and employment as well as a diagnostic study on Tunisia's agro-food industry accompanied by operational recommendations that would boost the sector and transform it into a new driver of growth and job creation.

Box 3: The Concept of Rural Economic Transformation

The concept of rural economic transformation considers the rural economy as a whole where many economic opportunities co-exist including agriculture. The theory on the structural transformation of developing economies assumes that a country's economic structure changes over time and that the share of the primary sector, mainly agriculture, decreases in favour of industry (secondary sector) then services (tertiary sector). This movement is accompanied by an increase in agricultural competitiveness, which releases labour that could be employed in industry. Such a transformation has occurred in Tunisia since the 1960s but remains imperfect. The growth of industry and services, which now represent 90% of GDP, is not strong enough to resolve the underlying problem of unemployment. In such a situation, rural economic transformation assumes actions that will combine agriculture with industrial and services activities to boost synergy and diversification and to seize new opportunities in information and communication technologies (ICT), tourism, biotechnologies, environmental productions and the production of renewable energy, for example. These integrated approaches also include the forging of ties between public and private sector actors, the development of professional organizations, facilitation of dialogue between structures and the authorities, building the capacity and developing the expressiveness of youths and women who are the real drivers of innovation and growth in rural areas.

6. **Implementation Schedule.** Depending on available resources that could be mobilized and the thematic priorities, the implementation schedule for the first phase of the analytical work programme including preparation of the concept note and the search for financing would be as follows:

2017	
Pillar I	Public Spending Review Industry and Innovation Policy Evaluation Study on the optimization of Tunisia's Industrial Specialization
Pillar II	Study on the Establishment of Annual Growth Statistics at Governorate Level. Study on the Establishment of a Quality of Life Index (QLI) (pilot)
2018	
Pillar I	Study on Tunisia's Structural Transformation (transition from lower MIC to upper MIC) Study on the Trade Integration of Tunisia with Africa Study on the Modelling of Tunisia's Labour Market
Pillar II	Flagship Study on Rural Economic Transformation
2019	
Pillar I	Study on Skill Needs of Industry and the Private Sector up to 2030
Pillar II	Study on Agro-Food Industries

7. Definition of the 2019-2021 Analytical Work Programme will be initiated in 2018 and confirmed at the 2017-2019 Mid-Term Review

Annex 5

Synthesis of the Guidance Note for the Preparation of the 2016-2020 Development Plan (Author: MDICI)

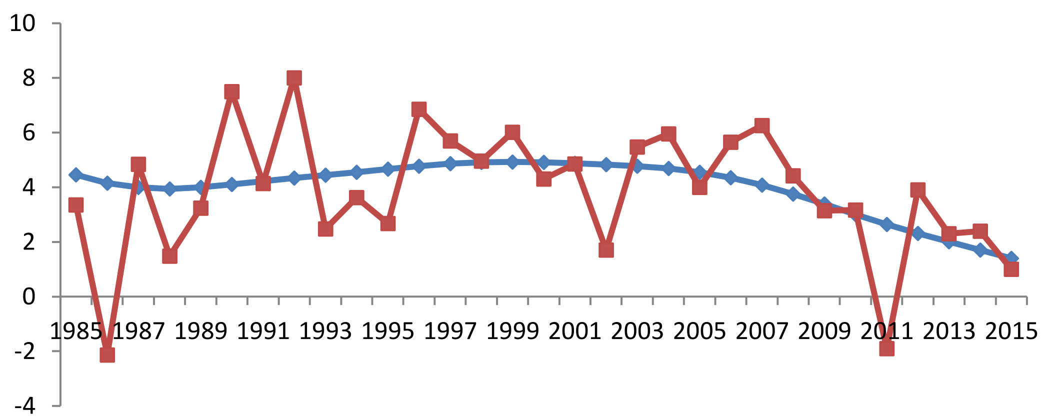
1. **Introduction**. In 2021, the Tunisian people rose up in revolt for their freedom and dignity demanding a complete break with the method of governance based on exclusion and advocated for a new model and new development strategy. This Guidance Note on the first development plan of the Second Republic is in keeping with this context. It outlines the new blueprint for society and determines the development model desired by Tunisia based on a diagnostic review of the country's economic and social situation. The Guidance Note, therefore, constitutes a basis for dialogue between all the actors in society and a reference framework for the preparation of the development plans covering the 2016-2020 period.

Development Diagnostic

2. The development diagnostic reveals many structural problems in particular the non-existence of good governance, the proliferation of corruption, the ineffectiveness of public polices, low productivity and widening disparities between social categories and regions in additions to cyclical difficulties inherent in the democratic transition period stemming from political, security and social instability.

3. **The development model and its employment generating capacity.** The development policies contributed to the achievement of an average annual GDP growth rate of about 4.5% during the 1984-2010 period. Although this rate was considered high compared to similar countries, it concealed several vulnerabilities because of its inability to achieve equitable distribution of wealth. Nor did this high growth rate address the demographic challenge in the late 90s and create the required number of job positions to absorb the additional demand.

GDP Trend, 1984-2015

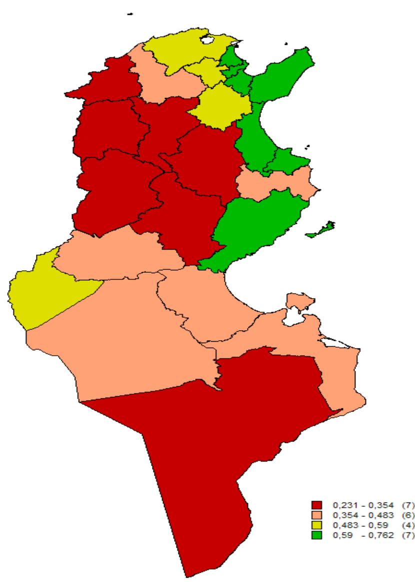


4. Based on the traditional sectors with low productivity and value added as well as unskilled labour and an over-protected local market, the development model began to lose momentum in the early 2000s.
5. **Contribution of Investment to Development Efforts.** Special attention was paid to investment reflected in the number of measures taken to promote private initiative and support the investment drive. As a result, the public investment rate reached 8% of GDP up to the late 2000s but then fell to 6% in the years preceding the Revolution. For its part, private investment increased without, however, reaching rates that were comparable to those of rival countries, not exceeding 61% of GDP. While progress was made in the

industry sector, foreign direct investment rarely exceeded 3% of GDP with the dominance of the energy sector representing over 50% of all FDI. The low level of local and foreign private sector investment is mainly due to bad governance, the proliferation of corruption, complexity of administrative procedures, limited market access and a burgeoning black market, which is both a cause and consequence.

6. **Regional Development.** Over the past few decades, the development policies adopted have largely contributed to the widening of regional disparities. Indeed, the centralized approach did not take into consideration regional specificities and did not encourage the effective participation of civil society or the private sector as well as professional structures both at the regional and local levels in the preparation of development guidelines and policies. While public investments were channelled towards certain regions, they were more concentrated on basic social services and internal infrastructure within these regions rather than on infrastructure connecting these regions to the main coastal cities and ports, which did not help to attract private investment.

2015 Regional Development Index Map



7. **Social Policies.** Over the past two decades, the volume of social-related transfers and expenditure represented between 16% and 20% of the budget, which helped to create a strong middle class representing 80% of the population. However, these efforts revealed their limitations in terms of well-being and social justice as reflected in the deterioration in living standards of many socio-professional categories (SPC), widespread unemployment, the spread of unemployment and the parallel market and in financial imbalances in the social security funds.

8. **Financial Balances.** Control of overall financial balances was one of the economic performances achieved that was largely responsible for the improvement of Tunisia's ranking by the institutional institutions up to 2010. However, as with most transitions, the political, security and social instability that prevailed during the period of democratic transition had a negative impact on financial balances, resulting in rising public debt and a deterioration in Tunisia's sovereign rating.

9. **Natural Resources and Environmental Protection.** The economic choices made by Tunisia over the past few decades, especially with regard to energy-intensive consumption, production with high water consumption and adoption of an over-intensive urbanization policy, have had a negative impact on the environment and natural resources. Furthermore, pressure has increased on the sustainability of natural resources, as a result of the degradation of a large part of the forest cover and of soil quality due to the phenomena of erosion, desert encroachment and over-tapping of the groundwater table.

10. **Tunisia in its external environment.** Tunisia's external economy is well integrated into its environment in spite of the weak diversification of its external markets; 80% of its trade is concentrated in four (4) European countries.

The Blueprint for Society and Alternative Development Model

11. The new blueprint for society and development model desired by Tunisia are based on four (4) key objectives:

- Provide the economy with the required efficiency;
- Mainstream the inclusion of all categories and regions in the development process;
- Guarantee the sustainability of development and;
- Strive to achieve equity and social justice.

12. **An evolving blueprint for society** The blueprint for society in the new Tunisia is based on the principles and values set forth in the constitution in particular:

- Consolidation of the foundations of democracy, establishment of the rule of law, protection of freedoms, strengthening of security and confirmation of consultation.
- Establishment of the pillars of the civilizational blueprint in order to restore confidence among young people, women, children and the family as development actors.
- Consolidation of the foundations of integral good governance and all it implies in terms of transparency, accountability and participation while working to modernize the administration and public service management methods.

13. **An alternative development model.** The economic dimension of the new development approach aims to achieve access to higher levels of inclusive and sustainable growth:

- Economic efficiency based on innovation and partnership through:
  - ✓ Transformation of the economic structure to facilitate access to global value chains;
  - ✓ Creation of an enabling environment for investment and establishment of a legal and regulatory framework that will be able to ensure complementarity between the public and private sectors and structures of the social and solidarity economy.

14. **Inclusion, a key determinant of equity through**

- Reconciliation between economic efficiency and social justice;
- Inclusion of regions and strengthening the protections of categories with specific needs;
- Integration of women and young people into the development process and consolidation of human resource capacity.

15. **Sustainability of the Development Process and Promotion of the Green Economy through**

- Implementation of a new regional development policy;

- Rationalization of natural resource management and environmental protection;

- Use of non-conventional resources (desalination of seawater, brackish water,);

- Sustainable and participatory waste management.

16. **Redefinition of the roles of the three development actors:**

- **Central Government** plays a key role in wealth distribution, improvement of living conditions, guarantee of service delivery (education, higher education, vocational training, health), establishment of infrastructure and public utilities as well as arbitration, regulation, guidance, forecasting and the promotion of partnerships with the private sector.

- **The private sector** is a key actor in the creation of wealth, investment and employment.

- **The third sector** comprising the institutions and structures of the social/solidarity economy and civil society organizations are full-fledged partners in the effort towards integral development.

17. **Requirements.** The success of the integral development process in particular requires:

- Establishment of the institutional framework by setting up independent constitutional bodies, the supreme council of magistrates, the constitutional court, the supreme council of local government and the national social dialogue council;

- Preservation of peace and security and combat against terrorism ; and

- The consolidation of social peace, restoration of working values and the preparation of the prerequisites and instruments for decentralization.

Main Thrusts of the Strategy: Objectives, Policies and Reforms

18. The government's strategy for the 2016-2020 period has five (5) main thrusts including one crosscutting thrust on good governance and the combat against corruption. The four (4) other thrusts are as follows:

Thrust 1 – From low-cost economy to economic hub mainly due to an enviable geographical location and qualified human resources.

More Diversified Economic Fabric with a High Employment Content

Positioning in global value chains and promotion of promising sectors by increasing the share of sectors with a high knowledge content from 20% of GDP in 2015 to 30% in 2020

- Development of infrastructure and logistics by bringing down logistics costs from 20% of GDP in 2015 to 15% in 2020;

- Promotion of innovation by doubling the number of patents nationwide;

- Development of integral and sustainable complementary economic subsectors by increasing the level of integration of exporting sectors from 15% at present to 20% by 2020;

- Productivity as a source of competitiveness by accelerating the pace of total factor productivity to over 2.5% in 2020; and

- Promotion of employment and employability especially among higher education graduates and in the hinterland regions.

Promotion of Investment and Improvement of Business Climate

- Private investment, key driver of growth and employment; with the objective of raising the investment rate to 25% of GDP in 2020;

- Improve the return on public investment by increasing the share of private sector investment in total investment to above the 65% threshold by 2020;

- Improvement of the business climate by improving Tunisia's Doing Business ranking to 40^{th} position from its 60^{th} position at present.

Support for the export drive and to Tunisia's integration into the global economy

- Deepen economic integration and promote the export drive by bolstering export efforts to reach 42% of GDP by 2020.

Promote Employment and Improve Employability

- Reduce the unemployment rate from 15% to 11.5% by 2020 especially among young graduates;

- Accelerate the rate of growth and strengthen its employment content;

- Ensure the effectiveness of the active employment policy (AEP); and

- Encourage and promote the spirit of initiative, and strengthen the social and solidarity economy.

Thrust 2 – Human Development and Social Inclusion

- Reduce the absolute poverty rate from 4.6% to 2.5% by 2020 and raise the Human Development Index (HDI) from 0.721 in 2013 to 0.786 in 2020;

- Enhance the efficiency and quality of the educational system for higher education and *vocational training and its adaptation to the needs of the productive system while creating* bridges between its components and striving to consolidate the professionalization of streams and specialties;

- Transform youth and childhood into real partners in the development process;

- Safeguard and consolidate women's vested rights, take their concerns into account especially in rural areas, eliminate all forms of violence against women and prevent school drop-outs, especially girls and build women's economic and social capacity; and

- Integrate Tunisians living abroad into the development effort, safeguard their rights and consolidate their participation in the development drive.

Social Promotion

- Fulfil the provisions of the social contract, promote professional relationships and improve occupational health and safety,

- Modernize the health sector and distribute health services equitably among the regions in accordance with the health map while strengthening medical specialties and developing research in the sector,

- Improve living conditions (decent housing, drinking water, electrification, sanitation and transport,),

- Establish a social protection floor and identifier while allocating to social transfers and spending resources corresponding to at least 20% of GDP, and

- Introduce a global reform of the social security system especially in the pensions and health insurance divisions.

Thrust 3 – Regional Development and fulfilment of the regions' aspirations

19. The regional development strategy for the 2016-2020 period aims to fulfil the aspirations of disadvantaged regions and reduce by 30% the existing gap reflected in the Regional Development indicator (RDI). The strategic regional development thrusts aim to**:**

- Provide **links and communication between the regions** by expanding and modernizing transport and logistic services infrastructure. Reorganization of administrative divisions and equitable allocation of public investment as well as the distribution of specific budgets and programmes between regions and channelling of benefits towards regional development zones will help to open up the regions;

- **Promote development in the regions and enhance their attractiveness** by diversifying the economic base in the regions in line with available capacity and natural resources.

- Ensure an appropriate business environment by improving socio-collective infrastructure, equipment and services as well as encouraging and supporting private initiative and the territorial marketing strategy;

- Develop trade between border regions and their Libyan and Algerian counterparts;

- Develop economic subsectors and promote competitiveness and scientific research as well as support to the green economy which are strategies to be developed and operationalised in order to boost regional development;

- **Modernize the regional development financing system and make it more flexible** by establishing a legal framework that will enable local governments to promote their own financial resources. Further support is envisaged for the financing mechanisms through the establishment of banks for the regions or development and investment funds in the regions;

- **Improve living conditions at the local and regional levels** by intensifying specific programmes in order to strengthen infrastructure and improve drinking water supply, electrification and sanitation and to **modernize** community facilities and administrative services and provide support to sporting and cultural activities for young people. Additional efforts will be made to support access to social coverage and public medical services and to improve telecommunication network infrastructure and housing conditions; and

- **Develop decentralization and lay the foundations for local and regional good governance** through the establishment of a political and institutional system by organizing municipal and regional council elections, the **establishment of a new administrative territorial structure**, revision of development plans, support to the devolution and restructuring of the central, regional and local administration. New measures will also be envisaged to consolidate the good governance foundations at all levels and in different areas in order to guarantee equitable, inclusive and sustainable development.

Thrust 4 – The green economy, guarantor of sustainable development. The protection and good governance of natural resources is the main pillar of the green economy. Thus, the main objectives in this area are:

- Provide water security.

- Guarantee food security.

- Provide energy security.

✓ **Adoption of equitable regional development that includes all regions and respects ecological balances**

- Ensure complementarity between rural and urban areas.

- Establish and develop new integrated economic hubs that will become centres of influence and engines of development.

- Develop border areas so that they are able to attract investment and create jobs.

✓ **Management and rationalization of the use of water resources**

- Achieve a water resource harvesting rate of 95% in 2020 compared to 92% at present.

- Improvement of the drinking water network yield to 80% by 2020 compared to 76% at present.

- Achieve a drinking water supply rate in rural areas of 96% by 2020.

- Reuse 50% of treated water.

- ✓ **Modern agriculture, guarantor of food security**

- Supervision of, and support to farmers.
- Establishment of new mutual funds that will help small-scale producers to manage the production and marketing chain.
- Raise the agricultural sector growth rate to achieve an average annual rate of 5% throughout the 2016-2020 period.
- Increase the share of food products in exports.

- ✓ **Control of energy consumption**

- Reinforcement of research, exploration and investment in the energy sector.
- Diversification of energy sources and shale gas exploration.
- Increase in the share of renewable energies in the energy mix to 12% in 2020 from 3% at present.
- A 3% annual reduction in energy intensity.

- ✓ **Protection of natural heritage**

- Fight against illegal fishing and protection of maritime wealth.
- Fight against desert encroachment, erosion and sand silting.
- Development of forest stock and integration of local residents into its governance.

- ✓ **Protection of the environment and natural habitats**

- Environmental upgrading of industrial enterprises and especially those operating in the chemicals and phosphate sectors in the Governorates of Gabes, Gafsa and Sfax.
- Achieve a household waste recycling rate of 50% by 2020.
- Increase in the public sanitation network connection rate in municipalities covered by ONAS to 90% in 2020 from the current 85.9%.

- ✓ **Reduction of the risk of natural and technological disasters**

- Build national natural disaster surveillance capacity and develop early warning systems.
- Build national resilience and adaptation capacity.

20. **2016-2020 Growth Pattern** Achievement of the objectives set by the 2016-2020 Strategic Development Plan (PSD) will depend on a growth path that in particular envisages the gradual return of growth to its historical growth path of 5% and an increase equivalent to 7% of GDP in the investment rate by 2020.

Table 1: Growth Pattern (2016-2020)

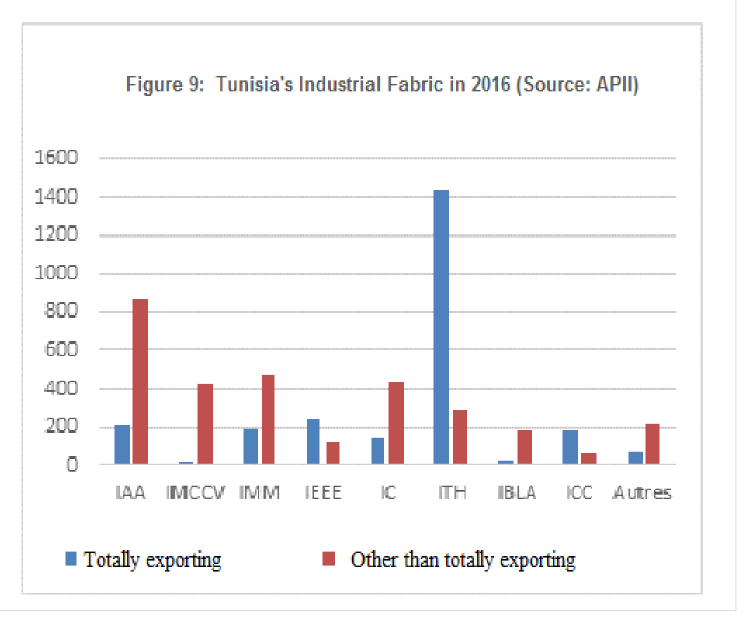
(Constant Prices)	2015-2011	2020-2016
Increase		
Average GDP growth at market prices	**1.5%**	**5.0%**
Consumption		
Public consumption	5.4%	4.3%
Private consumption	4.1%	4.4%
Investment (Current Prices)		
GFCF in TND	77 048	125 000
Average over the period	0.9%	17%
Investment rate (end of period)	18.5%	25%
Unemployment Rate	15.2%	11.5%
Trade		
Exports of goods and services	-0.7%	6.0%
Imports of goods and services	-0.1%	5.2%
Revenue (TND)		
	8 283	12 400
Savings Rate		
Savings rate/AGNI	10.5%	17.7%
Balance of Payments		
Current Deficit (end of period)	**8.5%**	**6.8%**
Inflation (end of period)	**5.4%**	**3.6%**

Source: MDICI, 2015

Annex 6

Note on Industry in Tunisia

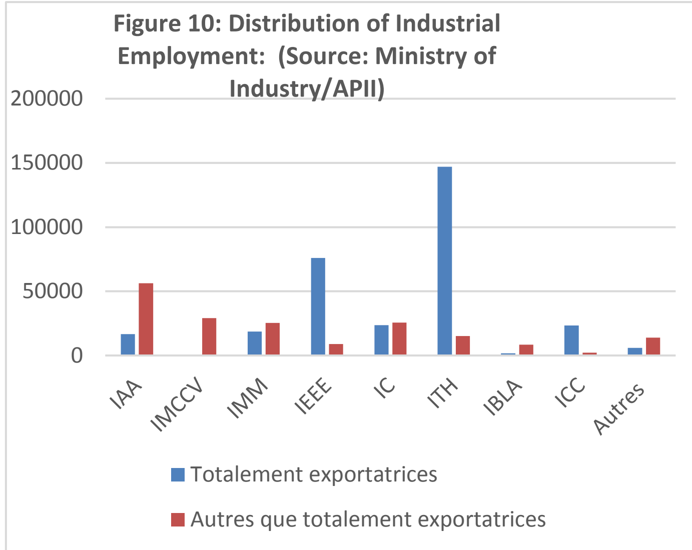
1. **Role of Industry**. Tunisia, historically an agricultural country, decided in the early 60s to link its economic development to the development of an industrial base, initially focused on meeting domestic demand as part of an import substitution strategy. However, this turned out to be a partial failure because of the narrowness of the Tunisian market. From the early 1970s, the Tunisian Authorities began to change strategy by promoting a transformation policy based on a controlled opening up of the economy. This was mainly dependent on attracting foreign direct investment (FDI), increasing medium and high value-added industrial exports to Europe and establishing a national tourism industry. An extremely attractive fiscal and non-fiscal incentive system was established with a specific regime for industrial exporters[ii]. In 1995, with a view to the lowering of tariff barriers planned for 2008, a major programme was set up to upgrade Tunisian enterprises supported by the European Union (EU) aimed at modernizing their equipment, resources and method of management. This programme's objective was to improve their productivity and enable them to withstand international competition. This programme had a significant impact on the competitiveness of Tunisian enterprises. The share of industrial exports in total exports rose from 40% in 1995 to 84% in 2008 before falling back to an average of about 76% over the 2011-2014 period.



2. Tunisia's existing industrial fabric is relatively diversified and, as at 30 March 2016, comprised 5591 enterprises, 2506 (45%) of which operate under a regime for totally exporting (TE) enterprises and 3085 under the regime for 'other than totally exporting companies' (OTE). The existing industrial nomenclature comprises nine (9) sectors (see figure above). The textile and clothing industry (TCI) and agro-food industries (AFI) currently represent 50% of Tunisia's existing industrial fabric followed by Mechanical and Metalworking Industries (MMI) and the Chemical Industry (CHI). In all, these four (4) sectors currently represent 73% of Tunisian industry. This distribution is slightly modified in terms of employment. In fact, 80% of industrial employment is provided by the textile and clothing industry (TCI), agro-food industry (AFI), electrical and electronic industry (EEI) and the Chemical Industry (CHI). However, a detailed analysis confirms the existence of a certain dynamic between the number of jobs and the tax regime of the enterprise. Thus, while the number of enterprises benefiting from the totally exporting regime currently only represents 45% of the existing industrial fabric, these enterprises represent 63% of total employment in industry representing 499,000 jobs in 2016, 47% of which were in the textile and clothing sector alone and 24.2% in the electrical and electronic sector.

3. However, jobs in the textile and clothing sector are mainly low or moderately skilled jobs. This finding is currently the main problem of Tunisian industry.

4. The industrial specialization method and adoption of the *workshop* strategy mainly based on imports of semi-finished goods intended for re-exporting mainly to Europe to Tunisia since the 1970s, is unlikely to facilitate the establishment of an industrial base able to absorb the highly skilled jobs that Tunisia needs to integrate its higher education graduates entering the labour market each year.



5. This objective assumes an upgrading of Tunisian industry and revamping if not reassessment of its industrial strategy and resources allocated by central government to support its industrial policy. Therefore, it is worth noting that since 2015, the Ministry of Industry has initiated an evaluation of Tunisia's industrial and innovation policy with Bank support. This will be used to enrich reflection and dialogue on the adjustment of the industrial model.

Author: Philippe Trape, RDGN

Annex 7

Note on the Agricultural Sector

1. **The agricultural sector is a lifeline for Tunisia's economy**. It contributes 10% to GDP, 16% to employment and about 10% to export revenue. Over the past few decades, the Bank has provided significant support to this sector, in particular through: (i) integrated agricultural development projects (IADP) in the regions of Gabès and Gafsa; (ii) the Second Water Sector Investment Project (PISEAU II) co-financed by ADB, AFD and the World Bank and; (iii) several project preparation-related grants. As a reminder, the financing of agricultural sector operations has represented about 4% of the Bank's commitments in the country since 2006.

2. **The scarcity of water resources is one of the main challenges for the development of the agricultural sector in Tunisia**. Indeed, about 80% of the water used for agricultural purposes is the main constraining factor. There are fewer and fewer opportunities for harvesting additional water resources and competition between the different water uses could in future become a serious threat. This constraint is compounded by the uneven distribution of rainfall and recurrent droughts that seriously affect rain-fed agriculture. The scarcity of arable land and erosion are other factors limiting the development of agriculture. The agricultural sector also faces technical and institutional constraints, including farmer' indebtedness which prevents about 120,000 farmers from accessing credit, the poor organization of agro-food subsectors such as the edible oil subsector, insufficient enhancement of exported products, problems related to productivity and the competitiveness of certain value chains, constraints associated with the land tenure system and the sub-division of farmland, low intensification of public irrigated areas and a downward trend in public investment.

3. **However, this sector can provide many opportunities to stimulate the national development process**. Tunisia's comparative advantage for the agricultural products it exports such as olive oil, fishery products, dates and citrus fruit is that the latter provide opportunities for value chain development in these niche areas. Especially in the case of olive trees, the country has very large areas (around 1,700,000 ha) dedicated to growing them and there is significant scope for increasing yields and improving quality. The private sector has invested considerably in processing. Significant industrial capacity is already available to scale up existing output. The country has a storage capacity of 350,000 tonnes. Manufacturers have already invested in packaging and have begun to penetrate the international market. A private sector glass packaging industry is already established, even though it will have to further increase its investment in the quality of its products to meet the demand of oil exporters more effectively. There are real opportunities for the country to position itself in the organic oil niche market. All these assets provide opportunities for the development of the olive oil value chains by improving olive grove production and the quality of the oil, more efficient subsector organizations and an increase in Tunisia's market share in the traditional/organic bottled/packaged olive oil.

4. **Tunisia's agricultural policy** has remained almost unchanged since the early 90s. Its aim is ensure the country's food security while supporting farmers' income. The main components of the policy are: (i) constant support to small-scale family farming through agricultural and rural development projects (irrigation, drinking water, electrification, soil and water conservation works, roads): the Bank has been very active in financing several projects in this area; (ii) large-scale natural resources mobilization for agriculture; (iii) support to investment under the Agricultural Investment Code; the Special Fund for the Development of Agriculture and Fisheries (FOSDAP) is the instrument used to provide this support; (iv) price support by fixing a minimum price, especially for cereals and milk, and protection of the domestic market by customs duties and quotas; (v) subsidies on agricultural inputs (improved cereal seeds, fodder seeds, energy, irrigation water…); and (vi) incentives to export agricultural products for which Tunisia has a comparative advantage (olive oil, citrus fruit, dates and fishery products). Primarily concerned with improving agricultural production over the past few decades, the Ministry of Agriculture is beginning to change its approach to the design and implementation of agricultural products by using a subsector approach that also takes into account issues related to logistics, marketing and processing.

5. **The prospects for the Bank's future partnership with Tunisia in the agricultural sector will be guided by support to the strategic options adopted by the country to create more wealth and employment, thereby reducing regional disparities**. These options are to: (i) adopt a subsector approach focused on income-generating activities and; (ii) develop agribusiness, by encouraging reforms that will facilitate access to land, markets, logistics hubs, especially in the most disadvantaged regions. The Bank could support the sector's new development approach concerning integrated projects containing aspects relating to the organization of farmers, training, certification and harmonization in terms of quality with those of partner countries to facilitate access to markets. Since 80% of those working in rural areas are women, the Bank could pay special attentions to their involvement in the projects concerned.

Author: Mohamed Tolba, RDGN 2

Annex 8

Note on the Energy Sector

1. **The Bank is one of Tunisia's traditional partners for the development of this strategic sector**. It began operations in the sector in 1975 with the El Borma Gas Pipeline Reinforcement Project. The Bank's total net commitments in the sector amount to UA 254 million. Nine operations, including 8 electricity projects, have been financed, thus contributing to improving the people's living conditions. The rural electrification rate in Tunisia rose to 99.5% in 2014 (compared to 6% in 1976). The national electrification rate was estimated at 99.8% over the same period (compared to 37% in 1976). Several other donors contributed to the achievement of this result, but there is no formal coordination mechanism for their respective interventions to ensure more effective use of resources. However, it is worth noting the recent interest expressed by IsDB and the Bank in the Italy-Tunisia interconnection project initiated by the operators of the two countries concerned with, in particular, support from the World Bank and European Union.

2. **The contrasting trend between declining national resources and a sustained increase in demand is the major challenge facing the energy sector in Tunisia**. Over the past few decades oil and gas production has fluctuated between 6 et 7 million tonnes of oil equivalent (TOE) while the average annual growth rate in demand for primary energy was 3%, rising from 8.4 million TOE in 2010 to 9.2 million TOE in 2015. In light of the resources estimated at 5.2 million TOE, Tunisia had an energy gap of 4 million tonnes of TOE in 2015. In fact, a structural energy gap has emerged since 2000 in spite of all the exploration and demand control efforts. Moreover, for various reasons, the subsidy has increased since 2010 and now represents a heavy burden on public finances, although it has been significantly alleviated by the fall in world oil prices.

3. **As regards the energy mix,** the sharp increase in gas resources has, over forty years, transformed the country from a situation of almost complete oil monopoly to one of more or less balanced sharing with natural gas. In 2015, natural gas represented 53% of the country's primary energy; 47% of this gas is produced locally and 53% imported from Algeria. Electricity has been the main driver of this massive gas penetration due to its use in electric power plants where the electricity generated uses 73% of natural gas consumption. The existing pattern cannot be identically replicated in future, since gas resources would not be able to meet demand should the trend be the same as in the past. Under these conditions, it will be necessary to envisage other types of consumption that will lead to a reduction in natural gas requirements.

4. Tunisia's energy sector has **opportunities**. Tunisia is located between two major **oil and gas producers**, namely Algeria and Libya and its national reserves have not yielded all their promises. The potential for non-conventional oil and gas resources as estimated by the International Energy Agency could largely cover the country's needs for at least a decade. As regards the development of renewable energy, the country enjoys excellent sunlight conditions and has significant wind potential. The country also has power interconnections with its neighbours: 5 with Algeria and 2 with Libya, currently used on a net-zero-energy trade basis but which could be used to increase power trading. **There is also a gas connection with Algeria, which exports its natural gas to Europe through Tunisia.** With Libya, a joint gas pipeline project has reached an advanced stage of development but has not yet been able to be implemented. Moreover, with an electrification rate of 99.5%, Tunisia has been able to develop industrial fabric for the production of electrical equipment ranging from meters to cables and transformers in compliance with international standards and a high proportion earmarked for export.

5. In the area of **renewable energy**, the programme to promote photovoltaic solar roofs launched over the 2011-2015 period has exceeded 60% of its objectives and fostered the emergence of private assembly (5) and installation (210) firms. The implementation of renewable energy programmes could create positive externalities by creating a new industrial subsector in these job-creating areas. It is, therefore, important that the reforms embarked upon aimed at improving the business environment for private sector participation in electric

power generation, especially in the area of renewable energies are pursued and accelerated. Publication of the implementing texts of the Law on Renewable Energy and the establishment of a sector regulatory authority are among the priorities.

6. **The Government's policy and strategy** to reduce the country's vulnerability and more effectively safeguard its supplies, is to initiate a real **energy transition.** It will be necessary to address the following challenges: (i) secure, continuing and affordable supply through, in particular, the adoption of sustainable energy mixes, (a) by intensifying the development of conventional, and possibly non-conventional oil and gas resources, (b) by diversifying natural gas sources of supply, (c) by developing the contribution of renewable energy in electric power generation, and (d) developing the power trade with neighbouring countries (including an interconnection with Italy); (ii) combatting energy insecurity by providing all citizens with access to energy with a special focus on the supply of natural gas to the urban communities of the country's hinterland; (iii) economic streamlining by adopting an energy-efficient economic development model and stepping up efforts to diversify the energy mix through the use of renewable energy, in particular, wind and solar energy, aimed at achieving 12% of total electric power generation from renewable sources by 2020 and 30% by 2030; (iv) the development of regional integration through the intensification of regional electricity and gas trading; (v) implementation of the necessary institutional reforms for the sector's future development through, in particular, revision of the Hydrocarbons Code, by adopting the implementing texts of the Law governing Electricity Generation from Renewable Sources in order to promote the private sector's contribution to the development of these energies.

Author: Amadou Bassirou Diallo, RDGW 3

Annex 9

Note on the Financial Sector

1. **Government strategy.** Reform of the Tunisian financial sector plays an important role in the 2016-2020 National Reform Programme. Modernization of the financial sector aimed at improving financial intermediation in Tunisia (banking, SME financing, micro-financing, financial market and insurance) merges as a major strategic direction to strengthen economic competitiveness and regional development in the 2016-2020 Strategic Development Plan. The financial sector modernization is based on the following components: (i) improvement of the governance regulatory framework, (ii) strengthening of banking supervision, (iii) building the banking sector's resilience by completing the restructuring and upgrading of the banking system, (iv) improvement of financial inclusion, (v) facilitation of access to financing by micro-enterprises, SME, innovative venture capital companies; and (vi) the development/deepening of capital markets.

2. Constraints and challenges of the Tunisian financial sector. In spite of the reforms achieved to-date in the Tunisian financial sector, major challenges remain, which must be tackled in order for the sector to play its expected role in financing the economy and in fostering the economic inclusion of the most disadvantaged segments of the population). The Tunisian financial sector: (i) plays a limited role in financing the economy, with bank credit to the private sector barely representing 73.6% of GDP in 2015; (ii) has a fairly narrow scope with a financial inclusion rate of 36% and only 13% of bank credit benefiting SMEs; (iii) suffers from a low level of diversification of financial services; and (iv) presents considerable fragility, especially in the form of a high bad debt ratio of 16% at the end of 2015. The regulatory and governance frameworks for some subsectors also require strengthening. Therefore, the Tunisian Government cannot overlook the financial sector if it is to fulfil its ambitions for accelerated and inclusive growth.

3. The banking sector remains small by international standards, with estimated assets equivalent to 115% of GDP, well below the levels recorded in Jordan, Morocco and Lebanon. The banking sector is characterized by a triple paradox[37]. First, the banking landscape comprises a significantly high number of banking institutions (21), but there is insufficient competition. Second, despite the lack of competition the sector's average profitability is low, particularly reflecting weaknesses in the management of some institutions' operating costs, in particular those of public banks. Lastly, surveys point out that even though the majority of businesses have outstanding bank credit, they consider access to financing to be a major constraint to their expansion. Structurally, the banking system provides little credit to the Tunisian economy compared to countries with economic similarities. Its capacity to innovate and develop is inhibited by the threat of bad debts, control exerted over and regulation of bank credit interest rates which could impede adequate risk assessment and pricing, but also by the lack of mechanisms to facilitate SME access to credit (e.g. credit bureaux). It is also worth noting that Tunisia has the highest guarantee rate in the MENA region with USD 1.78 required in the form of a guarantee for each US dollar awarded in the form of a loan. However, it should be stressed that the authorities are making considerable efforts to offset these weaknesses, in particular through the restructuring of the banking sector, improvement of the guarantee mechanism and diversification of financing instruments, especially in the regions.

[37] Summary Diagnostic Review of the financial sector in Tunisia: inventory, main challenges and opportunities for reforms (June 2014).

4. **Financial inclusion weaknesses also limit the economic opportunities available to vulnerable and rural segments of the population and rural communities, to allow them to emerge from unemployment and exclusion through entrepreneurship and self-employment.** The microfinance sector in Tunisia remains far below its potential with a number of active borrowers (300,000) significantly below its potential of 950,000 individuals and about 245,000 micro-and small enterprises, as estimated by the study on financial inclusion published in 2013[38].

5. This potential corresponds to diversified demand for financial services credit, means of payment , transfers and insurance) which is largely unmet since the supply is mainly concentrated on the granting of microcredits. The sector is now characterized by its high degree of bipolarity, represented by organized microfinance institutions (5) meeting the requirements of the regulatory framework established in 2011, and by a large number of microcredit associations (289 identified, 176 of which were reported to still be active in 2015) that are currently experiencing considerable difficulties in complying with the regulatory framework in force. The planned adoption of a national financial inclusion strategy and the establishment of adequate support mechanisms such as a risk registry and inclusion observatory will ensure progress in terms of inclusion.

6. **Historically, the Government has adopted** a **policy of encouragement of investment capital activities based on fiscal incentives but the sector remains underdeveloped**. Since the Revolution, real progress has been made in the sector, fostered in particular by the adoption of the 2011 Decree-Law. This sector's role is especially important for the financing of industrial activities (over 75%) in the regional development areas (2/3). However, the contribution of venture capital to the financing of private investment and the Tunisian economy remains highly limited with a penetration rate of about 0.3% in 2015 and a strong concentration on development capital activities.[39] This limited progress particularly reflects the inflexibility of the regulations governing the sector, especially in terms of the eligibility of businesses concerned by the investments

7. The insurance sector is also poorly developed in Tunisia, with a volume of policies equivalent to 1.9% of GDP at the end of 2015, despite a high number of actors (over twenty companies) mainly concentrated in non-insurance activities. While Tunisia is positioning itself as an emerging insurance market, the sector is not very buoyant, with an average annual growth rate of claims paid of only 0.8%. Insurance covering specific sectors such as agriculture are embryonic and coverage of farmers does not exceed 8% and is often linked to the financing of an agricultural activity. An analysis of the sector reveals the following: (I) the automobile subsector dominates and is loss-making and the life insurance sector is poorly developed, (ii) mandatory insurance is not complied with, (iii) the solvency of actors is very heterogeneous and (iv) and there are weaknesses in the legal and regulatory framework.

8. **The capital markets do not fully play their role as drivers of the financing of the Tunisian economy.** Funds raised on the Tunisian capital markets remain very limited (1.7% of GDP in 2015). Market capitalization and corporate bond markets represent 21% and 2.8% respectively of GDP (compared to 61% in Morocco and 93% in Jordan). The primary markets for corporate equity and bonds are small and the secondary market lacks liquidity. The equity market is not used for the placement of long-term investments and enjoys only limited participation of institutional investors, thus depriving the economy of substantial financing resources. Similarly, listed companies do not reflect the structure of the Tunisian economy (no companies listed in the textile and tourism sectors)[40] and the alternative market to attract SMEs has very limited appeal

Authors: Ashraf Tarsim RDGN, Emmanuel Diarra RDGW

[38] ADB-IRAM (2013)

[39] However, this rate is above the MENA region average.

[40] Summary Diagnostic Review of the financial sector in Tunisia: inventory, main challenges and opportunities for reforms (June 2014).

Annex 10

Note on the Transport Sector

1. **Transport plays a major role in the Tunisian economy.** It contributes 6% to GDP and generates almost 140,000 direct jobs, i.e. over 4.5% of the employed labour force. Tunisia's tenth and eleventh National Development Plans assigned a key role to the transport sector with a view to promoting a trade-focused economy. The Bank's operations are mainly concentrated in the road subsector where it has contributed to the rehabilitation and modernization of over 4000km of roads and to the construction of over one hundred road structures. These interventions have significantly improved the network's level of service, by (i) ensuring the security of certain routes by building permanent crossing structures, (ii) reducing capacity constraints linked to the narrowness of road pavements and (iii) by facilitating access to socioeconomic facilities by opening up the regions.

2. **The sector's main development-related challenges**. The strategies adopted in recent years to improve the transport sector have not produced the expected results. Thus the organization of land transport governed by the Law of April 2004 is not yet effective, the quality of maritime and air transport services is inadequate, and issues of transport financing and organization have not yet been resolved. Moreover, the modal choices linked to public polices and an incoherent transport tax system required the national community to bear the additional economic, environmental and social-related costs. In Tunisia, multimodal transport is little developed. Irrespective of whether passengers or goods are concerned, transferring from one transport mode to another results in additional charges and delays. However, it is essential to seek complementarity and substitutability in transport in order to become established on the domestic and external markets which Tunisian enterprises want to do. The difficulties encountered in export pre-shipment and import post-shipment, particularly because of the non-existence of interoperability between transport modes and logistic services, are the causes of additional costs and travel times that affect the efficiency of transport services, consequently reducing the competitiveness of Tunisian goods.

3. **Opportunities**. In accordance with the country's new economic directions, the transport sector must endeavour to reduce regional disparities in Tunisia. This will provide fresh opportunities for the sector's development. It will entail achieving a regional balance mainly of road and rail infrastructure. Indeed previous economic policies favoured the coastal areas of the country at the expense of the hinterland regions which have little economic infrastructure. Paved road density varies from 6 km/100 km2 in the governorates of Kabila and Tetouane to 93 kilometres/100 km2 in the vicinity of Tunis, with an average of 70km/100km2. The Government's policy and programme for addressing the above-mentioned challenges as set out in the 2016-2020 plan is focused on the following four themes: (i) the transport sector as a growth driver: 15% of the investments under the 2016-2020 Five-Year Plan will be allocated to the transport sector; (ii) reduce regional disparities by focusing on the most disadvantaged regions in terms of infrastructure; (iii) the sector as a social factor; by reaffirming the social and inclusive character of transport, and; (iv) transport in the service of logistics development in order to improve the economy's competitiveness: development of inter-modality and improvement of port supply. The short-to-medium term operational priorities concern:

(i) Building the planning and management capacity of the Transport Sector through the Transport Master Plan Study and technical support under the PMIR for upgrading the road sector by focusing on the sustainability of transport infrastructure;

(ii) The completion and upgrading of road and motorway infrastructure as part of investment programmes focused on the connectivity of hinterland regions;

(iii) Support to the National Railway Network Rehabilitation and Upgrading Programme aimed at improving the supply of rail goods and passenger transport by the SNCFT with a view to ensuring complementarity and interoperability with the road and maritime modes and improvement of railway services in the hinterland governorates;

(iv) Implementation of the logistics development strategy in Tunisia for the construction and upgrading of port, rail and road infrastructure in the main towns and cities by prioritizing the reduction of negative externalities (pollution, accidents, etc.) of urban transport systems and provision of transport services for the most disadvantaged urban areas; and

(v) Support for the government's efforts to improve the governance and performance of national transport sector enterprises.

Author: Papa M. Fall, RDGN 4

Annex 11

Note on the Water and Sanitation Sector

1. **Due to its scarcity, water represents a major challenge for Tunisia's current and future development**. Most of the Tunisian territory is arid. Tunisia is classified among the least water resources endowed countries in the world. The estimated available volume of water is **440 m^3/year/per capita** and this ratio is likely to become lower and is projected to be about **360 m^3/year/per capita by 2030**. Irrigated agriculture is the subsector, which consumes about 80% of water resources and experiences competition from other uses of water in particular demand for drinking water (domestic, tourism and industrial). Drinking water needs will grow as the population increases, its living standards improve and its economic activities (in particular industry) expand. Agriculture will then be required to reduce its consumption of water and increase its agricultural production, which must grow at least as rapidly as the population in order to ensure food security. Water sector constraints are of different types (physical, technical, environmental, economic, socio-institutional and legal).

2. **The main opportunities** in this sector stem from the conclusions of several water sector studies conducted over the last few decades and which generally proposed an **integrated water management approach.** The main concepts aim to promote efficient uses of water by managing demand and enhance the resource as much as possible in a context that gives it a social, economic and environmental value. These studies also recommended the channelling of institutional reforms towards more decentralized methods of administration along with the gradual disengagement of central government, by encouraging user participatory management and increasingly involving private sector operators. Furthermore, the new Tunisian Constitution, adopted on 27 January 2014 states that the right to water shall be guaranteed and that the conservation and rational use of water is a duty of the State and of society. (Article 44).

3. **The Government's water sector development policy and programme is enshrined in Tunisia's 2009-2014 Five-Year Social and Economic Development Plan, in which the Government set its water security objectivities up to 2050**. It was, therefore decided to carry out a prospective and strategic study in order to improve water resources governance in an **integrated long-term vision**. It was against this backdrop that the Ministry of Agriculture, Water Resources and Fisheries (MARHP) launched the ''**Water 2050**'' project in 2009 and asked the Bank to finance it through the African Water Facility (AWF). This project is fully consistent with the new strategy adopted by the Government for sustainable development, equity and regional balance the starting point of which is the new programme (2016-2020) which is being finalized. The "Water 2050'' project is pivotal to the new strategy by enhancing long-term visibility and contributing to the creation of favourable conditions for its effective implementation.

4. The Bank has also assisted Tunisia in the drinking water and sanitation sector since 2010 with two investment projects financed by ADB loans: (i) the Rural Drinking Water Supply Programme (PAEPR) and (ii) the Treated Wastewater Quality Improvement Project (PAQEE) as well as through five (5) studies financed by grants (4 from the MIC-TAF Fund and one AWF grant). DWSS sector financing commitments represent over 10% of total commitments in Tunisia. A second PAEPR phase was approved by the Bank's Board of Directors in September 2016. Tunisia's other main partners in the sector area: the World Bank, KfW, IsDB and AFD, also support the financing of DWSS projects and studies.

Author: Belgacem Bensassi, RDGN 2

Annex 12

Note on the ICT Sector

1. **The ICT is, and remains one of the most dynamic in the Tunisian economy with an average growth rate equal to 17.5% of its value added over the 2007-2011 period**. **Its contribution to GDP has risen steadily since the mid-80s reaching 13.5% in 2011**. Tunisia may also legitimately nurture its great ambition to be become one of the continent's leading digital destinations in terms of job creation, and scaling up the use of ICT in all sectors of activity. Indeed, the country has undeniable assets in the sector (quality of higher education, existing infrastructure, attractiveness of the business environment etc.). This should help to make the ICT sector in time the main source of central government tax revenue, but also a major source of employment in a post –Revolution context (with low economic growth, 0.8% in 2015, a national unemployment rate of 15% and 28% among higher education graduates and wide social and geographical disparities, etc.). ICTs will be accorded national priority status by the Tunisian Authorities because of the performances the sector has achieved in recent years using cutting edge infrastructure in which the country has heavily invested both through the public authorities and private sector operators. It should also be noted that, on Tunisian territory, there are many technology parks, several undersea links with Europe in particular, call centres, regional and national offices of major international groups such as Alcatel, Ericsson, Sofrecom, etc.

2. **Despite the recent preparation and validation of the National Strategic Plan (NSP) ''Digital Tunisia 2020'', the development of e-government does not yet have a standardized reference framework** that would have allowed closer interaction between the different central government information systems the design and use of which remains highly fragmented. The Portal of the Government of Tunisia proposes a series of services for its citizens based on an aggregate process model around a set of themes (Life and Education, Culture and Leisure, Family Life, Legal Services, etc.) without however providing the user with guidance on all the procedures to be followed in the case of a specific event such as the loss of his/her job. As regards ICT equipment, there are some wide disparities in levels of equipment. Moreover, in terms of high and very high bandwidth infrastructure, the Tunisian territory is largely covered with the exception of white areas that are concentrated in the disadvantaged areas of the country's interior. On Tunisia's coastal strip, the urbanized and densely populated nature of the area is a factor that could facilitate the only technology that could provide the reliability, longevity, capacity and sustainability for the new users of tomorrow (i.e. fibre optics) and ensure the attractiveness and international competitiveness of the zone (particularly from the standpoint of innovation and off-shoring), which concerns most of the country's 600,000 enterprises. This explains why territories outside the coastal area are excluded.

3. **Despite the difficulties the country has faced in recent years in a post-Revolution context, the ICT sector in Tunisia is one of the few to have maintained its momentum with, in the end, considerable spinoff in terms of**: (i) economic development (digital value added: TND 4.5 billion (2014), digital exports: TND 0.95 billion (2014), annual number of jobs created: 7500 ; (ii) social development (% of households with internet access: 1/5 (2014), mobile broadband penetration rate: 8.9% (2014)) ; (iii) international positioning according to the NRI (world: 87, Africa: 4 and Arab countries: 8). To that end, through the Digital Tunisia 2020 NSP, Tunisia aims to significantly improve the quality of life of its citizens by more efficient digital use (Strategic Thrust 1: "Uses"). In concrete terms, it will be necessary: (i) to increase the percentage of internet users from 51% (2014) to 85% (2020) ; (ii) the fixed mobile broadband penetration rate from 4.9% (2014) to 10% (2020) ; (iii) the mobile broadband penetration rate from 8.9% (2014) to 50% (2020) ; and (iv) the percentage of households with access to internet from 20.9% (2014) to 60% (2020).

4. **In terms of prospects of a partnership with the Bank to support the NSP policy. Digital Tunisia 2020 is the reference framework**. It is the successful conclusion of an exercise on the prioritization of 64 projects collected using a bottom-up approach by the MTCEN team responsible for the Digital Tunisia NSP (excluding projects of a military or security nature). The prioritization exercise carried out by these teams led to the selection of 13 projects based on their degree of maturity (number of projects having passed the concept stage or ideally having been the subject of a feasibility study). The NSP's main objectives are: (i) connection of 2.7 million families to internet 4Mb/s; (ii) a connected digital school (access terminals, connectivity, teaching content, etc.); (iii) paperless administrative services.

Author: Samatar Omar Elmi, PICU 2

Annex 13

Elements of a Strategy to Create Jobs and Develop Networks of Micro-Small and Medium-Sized Enterprises (MSME) in Tunisia

Introduction

1. Tunisia's 2016-2020 Strategic Development Plan aims among others to achieve a 5% average inclusive and sustainable growth rate, reduce the unemployment rate from 15.4% to 11.5% in 2020, increase the share of renewable energies in the energy mix from 3% to 12% in 2020 and narrow the disparities between the least developed hinterland regions and the coastal regions by an average of 30% according to the Regional Development Index (RDI)

2. Unemployment, especially among young graduates and women, is one of Tunisia's main challenges. In a report published in 2104, the World Bank painted an alarming picture of the socioeconomic situation of Tunisian youth: one out of three young people in urban areas aged between 15 and 29 is not in employment, education or training (NEET). In rural areas, over two out of five young people are completely destitute. This situation is one of the main obstacles to the inclusion of Tunisian youth not only in the labour market and the national economy but also in society in general. This is compounded by the precarious working conditions, including young people, who are in employment. Indeed, those are mostly employed in the informal sector (over 55% of young working people in urban areas). Moreover, when they do have work contracts, these are short-term contracts that do not provide social protection or stable employment. The second challenge concerns regional disparities. Five years after the January 2011 Revolution, most economic activities continue to be concentrated in the coastal regions. Over the past two decades, the gap has widened between the coastal villages and towns of the interior and between urban and rural areas.

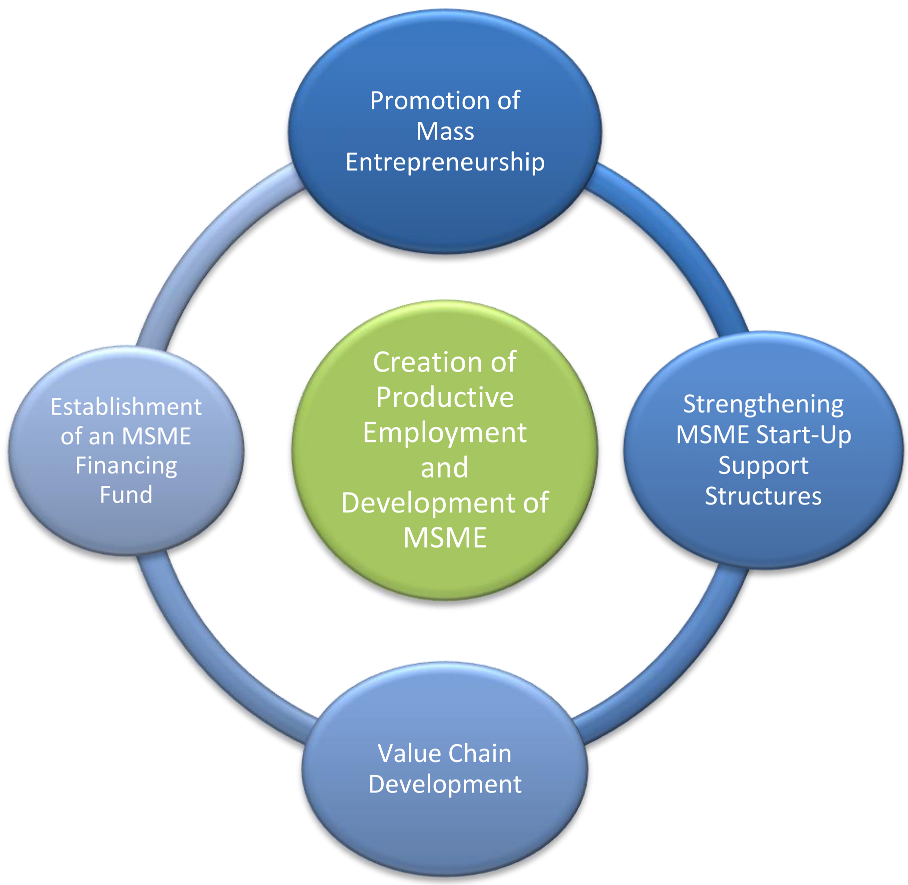
3. Against this backdrop, ADB, at the request of the Tunisian Government, and in close cooperation with the main public and private sector actors in Tunisia has prepared a Country Strategy Paper (CSP) for the 2017-2021 period aimed at contributing to the successful implementation of Tunisia's 2016-2020 Strategic Development Plan and, in particular, actions aimed at reducing unemployment, regional disparities and increasing the use of renewable energies. The proposed approach will be based on a contribution to the local development of the disadvantaged governorates the implementation of value chains and developer clusters. Such an approach will more effectively enhance natural resources, local expertise and specific cultural heritage in the beneficiary, disadvantaged governorates, as well as facilitate access to and partnership with the coastal towns.

4. Tunisia's CSP comprises two pillars: (i) Industrialization and support to value chains and (ii) Regional development and improvement of living conditions. Focus area 2.2 of the second pillar aims to support job creations and promote networks of micro, small-and medium-sized enterprises (MSME). The MSME are in fact widely considered in developing and in industrialized countries to be the engine and drivers of sustained, job-creating economic growth. In Europe, for example, over 99% of all European enterprises are, in fact MSME.

5. They provide two out of three private sector jobs and contribute over half of valued added created by enterprises in all the countries of the European Union. MPME are also the real backbone of the Japanese economy, since they are the main creators of wealth and economic growth alongside their key roles in innovation and R & D.

6. This is clearly recognized in the Guidance Note on the Government's Strategic Development Plan, which proposes the development of a diversified economic fabric with strong export and job-creating potential. The Bank's 2013-2017 Private Sector Development Strategy also attaches considerable importance to "a competitive private sector that will be an engine of sustainable economic growth, generating a decent work environment that offers productive employment in Africa in the next decade and beyond." MSMEs are dynamic and, to some extent, flexible enterprises. They make a specific and significant contribution to local economic development. Their impact may be measured, for they contribute to wealth and job creations.

6. The Bank has already successfully implemented in Tunisia the *Souk At-Tanmia Programme* aimed at promoting the employment of young graduates. This pilot programme (launched in 2012) may serve as a basis for the development and implementation of focus area 2.2 of CSP 2017-2021. The objective is to sensitize 50 to 70% of future graduates in the priority regions (14 regions identified by the Government) and provide assistance to young people to establish their own micro-or small enterprise. The following diagram presents the four actions proposed:



a) **Promotion of Mass Entrepreneurship:** through the following actions:

- Organize sensitization and information sessions to stimulate the corporate spirit and entrepreneurial culture from high school to university;

- Review the entrepreneurial training curricula at university level and adapt them to good international practices and experience;

- Organize training of trainer sessions in entrepreneurial training in universities and incubators in the priority regions;

- Organize sensitization and training sessions for future graduates to guide them towards the creation and development of their own projects;

- Direct technical assistance to students in their final year at high school who have innovative ideas (direct support for the preparation of business plans, search for markets and financing, coaching technique (quality, design, packaging and standard, …);

- Support young entrepreneurs before and after the establishment of their enterprise; and

- Provide individual post start-up support to young entrepreneurs who have established their enterprise

b) Capacity Building for Technical Structures which Support the Establishment of MSMEs in the Priority Regions

- Identify the strengths and weaknesses of support structures and incubators in the priority regions and prepare an plan to build the capacity of these structures;

- Build the supportive capacity of service providers located in the targeted priority regions;

- Update and upgrade the necessary tools adapting them to the new technologies;

- Provide assistance to support structures to prepare and adopt an operational manual that will describe in detail the approach to be adopted in a business start-up support process;

- In each priority region, create a Regional Entrepreneurship Committee (REC) that will bring together all the support structures as well as all the actors in the entrepreneurial chain (representatives of support structures, banks, UTICA the University and Higher Institutes, etc.). This committee will be tasked with defining a strategy and action plan for entrepreneurship development in the region, coordinating support structures, creating complementarities and synergy, monitoring the objectives of the structures and evaluating their performance;

- Establish a mechanism to define project opportunities at the regional, national and international levels by maintaining relations with European and African regions, participating in trade fairs, business partnerships and sector work;

- Train trainers in the intensified and simplified use of internet technologies (collection of technical data on technologies, manufacturing processes, suppliers of equipment, standards, quality and the market…),

c) Development of value chains with strong growth and employment potential

- Study to identify and obtain specific knowledge of the regional economic basin (mapping of value chains with strong employment and export potential, human resources and employment, economic fabric and potential markets) for the priority regions;

- Study on national and international positioning and promotion of productive sectors in particular agro-food chains (for example for organic olive oil, prickly pears, tomatoes and harissa, alfalfa grass, medicinal and aromatic plants, renewable energies and handicrafts (tableware, ceramic products and mosaics) which offer potential for employment and growth in the priority regions;

- Promote two to three value chains to be selected on a competitive basis for each priority region;

- Technical assistance for the development and upgrading of enterprises in the selected value chains; and

- Promotion and communication of local development achievements through a value chain approach.

d) Establishment of an MSME Financing Fund

- This Fund's objective will be to offset MSME financing shortcomings in Tunisia. This Fund will: (i) provide subsidies to formal sector micro-and small enterprises at their start-up, (ii) make equity investments in Small and Medium-Sized Enterprises after their start-up, (iii) guarantee credits for the financing of investment projects initiated by young entrepreneurs and facilitate access by enterprises, especially SMEs to bank credit to finance their own projects (establishment or expansion)[41]. Morocco has introduced for example the Microcredit Youth Start-Up Loan and many other MSME financing instruments. The Bank could support the establishment of a feasibility study and contribution to financing and to the start-up of activities.

  Author: Lamine Dhaoui, Consultant, RDGN

[41] The Micro-Credit Youth Start-Up Loan is a joint loan awarded by the government and banking establishments and available from almost all Moroccan banks. It is intended for natural persons of Moroccan nationality as of the date of the loan applications. These persons must have higher education degrees, training certificates or professional qualifications.

Terms and Conditions:

- Amount: 90% of the project amount with a ceiling of MAD 1 million; 45% of the 90% is financed by the government and 45% by commercial banks.
  - Tenor: 12 years' minimum and 15 years' maximum for government loans. 7 years' minimum for bank loans.
  - Interest Rates: 5% for government loans, 9% for bank loans.
  - Guarantee: Guarantee funds, assets.

Annex 14

Note on the Souk-at-Tanmia Entrepreneurship Support Programme

1. Context and Presentation

1.1 In the aftermath of the 2011 Revolution, the African Development Bank (AfDB) together with 19 partners representing the donor community, public and private sectors and Tunisian civil society launched the *Souk At-Tanmia* initiative aimed at tackling the problem of unemployment in Tunisia. The *Souk At-Tanmia* objective is to generate new opportunities for badly served entrepreneurs by helping them to start-up their own businesses. To that end, the partnership provides integrated support combining financing and supportive services in order to remove the financial constraints and aggress the weak capacity encountered by Tunisian entrepreneurs.

1.2 Indeed, *Souk At-Tanmia* occupies a special position in the Tunisian entrepreneurial ecosystem because of its specific characteristics. First, this initiative proposes to provide its recipients with financial support in the form of grants awarded under the partnership and supplementary financing by loans from two partner banks but also with non-financial support (training, supervision, coaching and market access).This sets *Souk At-Tanmia* apart from most of the programmes existing in Tunisia that offer either supervision, coaching or financing. Furthermore, *Souk At-Tanmia* is a partnership, which benefits from the comparative advantages and the network of different national and international public and private sector entities. *Souk At-Tanmia,* therefore, provides integrated support to recipients and maximizes both the impact and visibility of its intervention.

2. Outcomes and Outputs

2.1 Launched in July 2012 and closed in December 2013, the pilot phase was successful. Therefore, a second phase was launched on 30 April 2014 in order to capitalize on the lessons learned from the pilot phase and to generate new jobs. *Souk At-Tanmia* has given hope to and fostered the entrepreneurial spirit among young people and created fresh economic momentum in Tunisia's least developed regions. The positive outcomes in terms of job creation and support to disadvantaged communities are further evidence of the initiative's success. The experience has also helped to create synergies and forge strong partnerships in the areas of entrepreneurship and SME development in Tunisia.

2.2 The main Souk At-Tanmia outputs are summarized in the following table:

Table 2: Outputs of the Souk-at-Tanmia Programme (as at 30 June 2016)

	Pilot Phase	**Second Phase**
Beneficiaries	61 projects	100 projects
Leverage Effect	Grants awarded: TND 1.78 million Total resources leveraged: ≅ TND 4 million, which represents a leverage effect of 2.2.	Grants to be awarded: TND 3.6 million Total resources leveraged: ≅ TND 12 million, which represents a leverage effect of 3.3.
Development Impact	54% of beneficiary projects implemented by young people 64% of beneficiaries are located in disadvantaged regions 33% of beneficiary projects implemented by women 34% of beneficiary projects implemented by unemployed people	66% of beneficiary projects implemented by young people 50% of beneficiaries are located in disadvantaged regions 36% of beneficiary projects implemented by women 50% of beneficiary projects implemented by unemployed people
Jobs Created and Project Performances	To-date, 530 direct jobs have been created. 54 Projects are currently benefiting from a technical assistance mission. Declared aggregated turnover as at 30 June 2016: 3.3 M TND	≅ 800 potential direct jobs As at 30 June 2016: 202 jobs created comprising 78 for women and 156 for under 35 year old young people. 49 enterprises are in operation and 84 legally established. Declared turnover as at 30 June 2016: TND 1.3 million
Building the Capacity of Tunisian Entrepreneurs	**Capacity Building** * 3 days entrepreneurial training on the preparation of a business plan and on business management for 300 participants. **Coaching and Mentoring** * A 12-month coaching and mentoring period.	**Capacity Building** * 60 hours of capacity building for 250 applicants **Coaching and Mentoring** * 19 months coaching with 9 months allocated to fund raising and 10 months to the start-up of activities. * 6 to 12 months mentoring.
Improvement of the entrepreneurial culture and economic empowerment of young people	Participation in 8 events for the promotion of employment, entrepreneurship and youth economic empowerment	Launching of an innovative cycle of conferences on entrepreneurship with the organization of thematic workshops Participation in 17 events to promote entrepreneurial culture
Reducing bureaucracy		Reduction in the time taken to award public grants (FOPRODI) from 128 to 86 days. Reduction in the time taken to process a loan application from 4.5 to 2.5 months.

3. Achievements and lessons. Given the relevance of the approach adopted, AfDB's catalytic role and efforts of all the Souk At-Tanmia partners, the initiative in its two phase has helped in:

(i) Building a reputation of credibility due to the transparency and rigour of its selection process, which is reflected in the popularity of the programme among Tunisian developers.

(ii) Acquiring confirmed experience through the establishment and development of employment generating enterprises;

(iii) Developing resource mobilization expertise reflected in a leverage effect of 2,2 for the pilot phase and 3.3 for the second phase

(iv) Building know-how in coordination with the different public and private sector operators in order to strengthen the ecosystem and optimize synergies to achieve a significant and sustainable impact

(v) Building an extensive network of local and international partners to resolve the different problems facing Tunisian entrepreneurs; and

(vi) Establishing a team that has experience in the management of the different actors in the entrepreneurial ecosystem in order to optimize synergies and prevent the dilution of efforts.

4. Development Prospects

4.1 In light of the achievements of these two phases of the Programme, the traditional donors wanted to renew the experience and launch a 3rd phase for Tunisia in order to consolidate, and capitalize on the expertise acquired by the Bank in terms of job creation. The Bank and its partners have, therefore initiated the conceptualization of a platform that will sustain the impact of, and expand the programme regionally and continent-wide. Thus, the expertise acquired and the expertise accumulated by ORNA in the supervision and management of the *Souk At-Tanmia* Programme could constitute a strong basis for establishing a **Centre of Entrepreneurial Excellence** in Tunisia. Fully consistent with the Jobs for Youth in Africa Strategy as well as the operational priorities (the High-5s) and the Bank's new Decentralization Strategy, this Centre of Entrepreneurial Excellence dedicated to the development of entrepreneurial ecosystems and the regional integration of SMEs in Africa could be instrumental in ensuring a lasting impact on youth employment.

Notes

In addition to ADB which was the initiator of the Programme, the following actors participated in the pilot phase: the Bank for the Financing of Small and Medium Enterprises (BFPME), the Tunisian Solidarity Bank (BTS), the British Council Tunisia, the Tunisian Centre of Young Business Leaders (CJD), the Confederation of Tunisian Citizen Enterprises (CONECT), the Government of Denmark, the British Department for International Development (DFID), the Government of the United States of America, the Mediterranean School of Business (MSB), Microsoft Tunisia, Talan Tunisia, Total Tunisia, the Tokens Association Network, Tunisiana, and the following five Agencies of the United Nations System: United Nations Industrial Development (UNIDO), International Organization for Migration (IOM), the United Nations Development Programme (UNDP), the International Labour Office (ILO) and the Food and Agriculture Organization (FAO) of the United Nations. The participants in the second phase were: ADB, BFPME, BTS, British Council Tunisia, CJD, CONECT, the Government of Denmark, DFID, the Government of the United States of America, MSB, Microsoft Tunisia, Talan Tunisia, UNIDO, IOM, UNDP, Tunisia Marketplace (TPM) and the Association of Tunisian *Grandes Écoles* [top-ranking higher education establishments] Alumni (ATUGE).

Author: Souk Team, RDGN

Annex 15

Country Fiduciary Risk Assessment (CFRA)

1. **Introduction.** The main objective of the Country Fiduciary Risk Assessment (CFRA) is to assess the fiduciary risk associated with each sub-system of a country's public finance management system, with a view to using its findings to implement projects financed by the Bank, then to identify capacity building requirements. This assessment covered Tunisia's main public finance management systems, namely preparation and control of budget execution, cash flow management, accounting management and financial information, internal control, external audit, procurement management and the fight against corruption. The assessment was carried out in accordance with the related Bank guidelines, in particular, the CFRA User Guide of April 2014. It draws on the most recent diagnostic review reports, regulatory texts, guidelines and reports communicated by the Tunisian Administration or available on its websites. It also reflects the conclusions of working sessions with Ministry of Finance (MF) Departments, the Court of Auditors, the Ministry of Civil Service, Governance and Fight against Corruption as well as technical and financial partners actively supporting Tunisian public finance management capacity building in particular, the European Union, World Bank and International Monetary Fund. This annex presents a summary of the CFRA, the full detailed version of which is also available.

2. Executive Summary

2.1 **Budget management.** The budget preparation and execution mechanisms are managed and controlled. The budget preparation process follows clearly established rules and the budget timetable. However, the development of Medium-Term Expenditure Frameworks (MTEF) and programme-based budgets has been gradual and the forecast horizon for all public finances remains one year. Budget management by objectives (MBO), which has accelerated since 2010, is promising. It will encourage the use of performance objectives through strategic sectoral reflection and medium-term programming of budget envelopes. To-date twenty Ministries representing 80% of the General Government Budget have tested the budget management by objectives and the performance indicators but effective MBO implementation remains subject to the adoption of the new Organic Budget Law tabled before Parliament since November 2015.

2.2 In recent years, despite the political transition that Tunisia has experienced, the budget has remained a credible tool for budget forecasting and execution and expenditure has remained close to forecast overall. The central government expenditure nomenclature is based on the standards of the IMF's 1986 Manual on Government Finance Statistics (GFS) but does not distinguish in any detail between the economic and functional classifications, which affects their readability and complicates the assessment of their effectiveness. In the case of development expenditure, the parts financed by Tunisia and external contributions are clearly indicated in the Budget Law with one line per development project.

2.3 As regards budget and financial transparency, the Tunisian Authorities have complied with the January 2014 Open Government Partnership (OGP) and undertaken to comply with an action plan, which aims to ensure the timely publication of the budget documents recommended by the OGP. The open budget subsequently improved from 11/100 in 2012 to 42/100 in 2015. The local government budget risk is under control and central government guarantees are subject to consolidated monitoring. However, budget risks related to ownership of public enterprises and social security funds are not adequately managed or documented. In a context where the situation of some of them has deteriorated it is important that this risk be identified and documented.

2.4 **Cash Flow Management**. The main purpose of cash flow management is to cover expenditure in a timely and sufficiently predictable manner. The Treasury Single Account (TSA) at the BCT is credited and debited by the General Treasurer of Tunisia (TGT) and centralizes on a daily basis transactions made by the public accountant network. External resources are generally positioned in special bank accounts opened at the BCT but some donors' grants are disbursed into accounts opened in commercial banks and are not traceable in central government accounts. Generally, external resources are monitored with some delay using a regularization procedure, which considerably delays the production of budget review laws. Reconciliation between the TGT's accounting entries and its account statement at the BCT is done monthly for transactions affecting the Treasury Single Account. It will also be necessary to include in this reconciliation exercise cash allocated to co-financed projects from accounts mainly held at the Central Bank but also in commercial banks.

2.5 **Internal Control.** The Tunisian public finance management system has adequate internal controls. Internal controls on wage and non-wage expenditure are efficient and are based on an expenditure cycle where the functions of payment authorization officers, expenditure controllers and accountants are correctly separated and fall within the remit of different authorities. A new Code of Conduct for Tunisian civil servants was approved by Decree 4030 of 3 October 2014 and its implementation strategy approved on 22 February 2016. Its scope covers all civil servants, local government employees and personnel of public enterprises (845 000 employees). However, the internal audit function is not yet compliant with international good practices. It is divided among several bodies with similar mandates but reporting to different authorities: the General Financial Control (CGF) Committee at the Ministry of Finance, the General Public Services Control (CGSP) Committee reporting since March 2016 to the Ministry of Civil Service and Fight against Corruption and the General Control of State Property and Land (CGDE), which is under the Ministry of State Property and Land. Their programmes and annual reports are not published but submitted through management to the High Commission for Administrative and Financial Audit (HCCAF), which is responsible for the coordination of their activities. Although their methods are evolving, they have not yet incorporated the risk-based approach. The controls they carry out mainly cover compliance with the legal and regulatory framework with close attention to the regularity of processes without paying much attention to the significance of the challenges, or to efficiency, efficacy and cost-effectiveness of operations. Rationalization of the central government control bodies by merging the three ex post control bodies (CGF, CGSP and CGDE) into a central government internal audit function with the necessary critical mass to ensure efficient functioning and with an institutional anchoring that will guarantee its independence has not yet been carried out. It has, however, been discussed and supported by the main donors and the groundwork has been laid by the preparation of common working tools for the 3 bodies, in particular a procedures manual, a code of ethics and the establishment of an association of controllers working on the harmonization of control processes and the certification of controllers. Asset and liability management is not sufficiently developed, which prevents any strategic and active management. While non-financial asset registers exist, they are not necessarily exhaustive and are not developed. This situation will make it difficult in the longer term to shift to an accrual-based accounting system and in the near-term reduces income from assets. Domestic and external debt are well known and monitored with comprehensive files that are updated and reconciled monthly with the accounts.

2.6 **Account management.** Existing accounting standards are not compliant with international accounting standards. They are derived from the 1973 Public Accounting Code which requires single entry bookkeeping (and not double entry for central government) and produces data which provide little financial information. This accounting system records revenue as it is collected and expenditure as it is paid, with no accounting relationship between them. Debts and claims are not traceable in the accounts, which provide no information on central government's assets. While accounting remains rudimentary in comparison with modern standards, the gradual approach adopted for reforming the central government accounting system is coherent.

2.7 This reform will first introduce double entry bookkeeping, then the gradual shift towards accrual accounting converging with IPSAS standards and a general chart of accounts that is consistent with and complements the budget nomenclature. The Higher Norms and Standards Commission established by Decree on 22 May 2015 will guide the reform towards convergence with IPSAS standards. The significant delay in presenting central government accounts and preparing budget review laws is mainly due to the delay in closing the complementary period (established by law as 20 January of the following year but in practice not complied with) and more specifically to accounting delays in recording some transactions corresponding to direct payments on external borrowings. There are currently ongoing efforts by the Authorities to shorten the delays and adhere to the legal deadlines for the presentation of accounts. It is necessary to establish a better controlled accounts closure procedure. The budget execution monitoring reporting system is ADEB (Budget Decision Support System, developed and maintained by the MF data centre) which processes events from the opening of credits to authorizations to pay and editing of transfers. The expenditure is then taken over by TREASURY, which monitors the accounting part without manual rekeying. ADEB provides all the information on the status of the expenditure in real time. ADEB is an integrated system: the users (Ministries, expenditure and accounts control) have simultaneous access and receive updated information but the existing system generates cash-based budget accounting for expenditure and revenue. There is no general accounting in established entitlements or in asset valuation.

2.8 **External audit**. The Court of Auditors does not certify the annual central government accounts. Pursuant to the Organic Budget Law in force and the Accounting Code, the Court of Auditors reviews (i) management accounts of public accountants and the Treasurer General, (ii) Government General Accounting Statement (CGAF) that consolidates the accounts of the payment authorization officer, and (iii) the draft budget review law. It is required to issue a declaration of conformity between the public accountants' management accounts and the CGAF and comments on issues identified. The accounts will be certified as soon as an accrual accounting system is established and financial statements of central government land and property assets produced from the system in accordance with the provisions of the new Organic Budget Law. The change in political regime in 2011 greatly revitalized the external control of public funds. The Court of Auditors has been able to strengthen its influence and its position as a guarantor of their efficient use. These developments have not yet been reflected into a more timely presentation of reports and their due consideration by the Executive Authority. Finally, Parliament's resources should be increased to ensure expanded, high quality work that will enable it to fulfil its external oversight role more effectively.

2.9 **Procurement.** The evaluation concluded that there was a moderate procurement risk. The existing national public procurement system (NPPS) stems from a comprehensive structural reform implemented recently (following the 2011 political changes) supported by the Bank. It began with the adoption n March 2014 of Decree no 2014-1039 governing public procurement, which enhanced governance, efficiency and transparency in the area. This Decree also led to the introduction of modern new tools, likely to increase the degree of participation and transparency, such as the electronic submission of bids (e-procurement) effective since 2014. The existing NPPS makes public procurement the normal means of access to public contracts. It requires widespread publication (including free access to a website[42]) programming, purchasing opportunities and all bid results. The system does not allow for any hindrance and allows the participation in competitive bidding of any potential bidder who is qualified, interested and not on the debarment list for having engaged in prohibited practices[43].

[42] See National Public Procurement Observatory (ONMP) website.

[43] Decree no. 2016-498 of 08 April determines the public procurement conditions and exclusion procedures

2.10 It makes open competition the default procurement method and requires the use of standard BDs with relevant predetermined criteria and satisfactory procedures, with the exception of those relating to the mechanism for opening the proposals of consultants that have been considered inappropriate[44]. Same conditions of contract[45] required for the preparation of standard BDs are not always available compelling the actors to use earlier documents that are not harmonized with the newly established system. The NPPS contains an effective public procurement control and audit system that is deemed satisfactory even though it is necessary to reorganize the general control function in a bid to improve efficiency of actions and the monitoring of recommendations. In the event the bidder is not satisfied, the system grants all bidders the right to appeal, free of charge, and against the decisions handed down that have caused him/her harm. To that end, it makes provision for an impartial (with the presence of the private sector on the complaints management body), autonomous and efficient mechanism for taking legally binding decision for the parties unless they decide to refer the case to the competent tribunal. One weakness of the existing redress mechanism which, while efficient, is its failure to stipulate a maximum legal deadline for the publication of decisions dealing with complaints with the result that to-date while required, none have been published. For the contract execution phase, the system provides for a pre-litigation mechanism to settle disputes that is satisfactory but does not make arbitration the preferred method for settling public procurement-related disputes. This is partly due to constraints relating to the provisions of Article 7 of the existing Arbitration Code. Rulings made relating to procurement disputes arising during contract execution do however benefit from a legal environment that facilitates their effective enforcement. Moreover, as a country that has ratified the New York Convention, Tunisia recognizes the authority of *res judicata* of any arbitration ruling irrespective of the country in which it is made. Finally, the legal and regulatory framework deals satisfactorily with issues relating to conflicts of interest and the fight against corruption as well as the related penalties. However, the application of administrative penalties to bidders is not yet possible mainly because the New Commission for the Debarment of Economic Operators to be established pursuant to the provisions of Decree 2016-498 of 8 April 2016 is not yet operational.

Fight against corruption. In the years following the 2011 Revolution large-scale reforms were embarked upon to fought corruption. These resulted in (i) the adoption of Decree-Law no. 2011-120 of 14 November 2011on the fight against corruption and Circular no. 23 of 31 December 2011 on the declaration of assets by senior government officials; (ii) the establishment in 2012 of the National Anti-Corruption Commission as an independent constitutional body with clearly defined competencies to identify and investigate cases of corruption ; (iii) the establishment of an electronic portal for anonymous denunciations of cases of corruption ; (iv) facilitation of access to information and the administrative documents of public organizations by the adoption of Decree 2011-41 ; (v) the conduct in 2013 of a compliance review of Tunisian legislation and provisions relating to the United Nations Convention against Corruption (UNCC) ratified in 2008 ; and (vii) the preparation of a Code of Conduct and Ethics for civil servants approved by Decree no. 2014-4030 of 3 October 2014. Tunisia still has challenges to address in these areas as reflected in the Corruption Perceptions Index score of 38/100 in 2015 ranking Tunisia 76th out of 168 countries. In order, therefore, for Tunisia to consolidate its anti-corruption efforts, it will have to finalize and adopt the national anti-corruption strategy and action plan, support the operationalisation of the National Anti-Corruption Commission and strengthen the legal framework for combatting corruption, particularly those aspects relating to illicit enrichment and protection of whistle-blowers.

Public finance management (PFM) is being rapidly reformed in Tunisia resulting in the revision pending adoption by Parliament of the Organic Budget Law. At this stage, the Authorities should envisage the possibility of establishing unified planning, coordination and monitoring framework linked to public finance management with a view to ensuring synergy and efficiency. In light of the foregoing, the country risk assessment for Tunisia concludes that the **risk level is moderate**.

[44] This raises a problem of the credibility of technical bid evaluation insofar as no provision is made for the simultaneous opening of technical and financial bids

[45] This is the case for example of the GCC and TCC. The SCC were recently finalized but only in Arabic.

3. Bank's Fiduciary Strategy for Tunisia

3.1. **Government's PFM policy and programme:** the Tunisian Government has embarked upon a vast PFM reform programme under the guidance and coordination of the Performance-Based Budget (PBB) Unit. The PBB objectives are to: (i) maintain the country's financial and economic equilibrium, (ii) guarantee discipline in the execution of the national budget, (iii) ensure transparent public action, and (iv) make government officials accountable. The related reforms are incorporated in the new Organic Budget Law (OBL) tabled before Parliament in November 2015 for expected adoption by the end of 2016 and entry into force in 2017. The reforms concern (i) Multi-Year Programme-Based Budgeting (Medium-Term Budget Framework-MTBF), (ii) strengthening of budget management transparency with, in particular, a Performance–Based Budget and publication of citizens' budget since 2014. The following reforms are also concerned: (iii) modernization of the public accounting system and its convergence with international standards, (iv) shortening of the time required to present accounts and (v) strengthening external jurisdictional control by expanding the status and role of the Court of Auditors.

3.2. **The Bank's strategic approach.** The Bank's Fiduciary Strategy for Tunisia is in line with its Fiduciary Management Policy. It aims to achieve more frequent use of Tunisia's PFM system, including the national procurement system, while helping to build the capacity of management and control bodies and institutions in order to provide good financial governance and ensure efficient public service delivery to citizens. It remains consistent with the above objectives defined by the Government in the PBB context.

3.3. **The degree of utilization of the country system and related objectives**. To-date in Tunisia, apart from the Bank's budget support operations whose financial implementation is based on full use of the PFM system with only national procedures (and not the entire system) being used for National Competitive Bidding for Goods and Works. The same applies to some aspects of PFM sub-systems integrated into the fiduciary management systems for the Bank's public investment programmes implemented by the public administration. These include the following: (i) the effective entry in the Budget Law of the annual allocations of some projects in terms of external resources and counterpart funds, (ii) execution of expenditure for these projects in real time using the ADEB application concerning counterpart funds, (iii) opening of special accounts at the BCT on which transactions are authorized by the central government services as executing agencies of the projects concerned, and (iv) *ex-ante* control of expenditure and internal auditing of projects by the FMU. Following approval of the Bank's new Procurement Policy approved in October 2015 and the qualitative reforms implemented in this area in Tunisia since 2012 (and ongoing), the conditions have been met to use the procurement system in Bank-funded projects. As regards financial management, the use of other aspects of the Country system by the Bank is closely linked to the concrete implementation of reforms. The OBL approval schedule must be scrupulously adhered to so that the implementation of reforms becomes mandatory and that of the performance-based budget (APP and APR) already initiated is regularized and widely disseminated.

3.4. Therefore, the Government must ensure the full inclusion of externally financed resources in the Budget Law, and the configuration of the programme-based nomenclature in ADEB (public expenditure circuit application). It should ensure the progression of the public accounting system towards a modern, accrual-based system compliant with international standards. In this regard, it should operationalise the Norms and Standards Commission and finalize the appointment of its members.

3.5. It should also accelerate the integration of the budget and accounting systems in order to facilitate crosschecking and the real time capture of information on disbursements on external resources in ADEB. This would be the best way to shorten the timelines for the presentation of public accounts and publication of the budget review laws. The Government should also address the challenge of adapting the different internal control bodies (*ex-ante* and *ex post*) to the new PBB approach. In this regard, and among others, it should rationalize the three ex post control bodies (CGF, CGSP and CGDEAF) in terms of their statutory merger, their institutional and operational anchoring as well as their professional capacity building. Similarly, it must continue its efforts to reform the external audit system, in order to strengthen the guarantees of autonomy of the Court of Auditors and the monitoring of reports by Parliament. Concomitantly, dialogue engaged between the TFPs and Authorities on the external auditing of operations on external financing should lead to solutions that will provide the Court of Auditors with resources to fulfil its mandate. This will enable the central organs and four regional chambers of the Court of Auditors to cover the full range of its duties and responsibilities effectively, including the performance and compliance audit of local governments and in the medium-term certification of central government statements.

3.6. **Bank support to public finance management reforms including public procurement**. In light of the foregoing this would be chiefly focused on (i) improving the Public Accounting and accounts presentation systems and (ii) building the capacity of *ex-ante* and *ex post* control bodies and institutions. This could be achieved through financing instruments such as budget support operations, public investment project support, technical assistance and institutional support. In this regard, the Bank should, over the period covered by the CSP be able to continue to support the country through the MIC-TAF and MENA-TF grant to implement capacity building activities. The following major actions must be completed: (i) development of a comprehensive, integrated information system for the collection of procurement statistics; (ii) capacity building for public procurement controllers and revisers with training and certification in procurement audit techniques, (iii) support for training actors in the use of the TUNEPS e-procurement platform. Finally, the national public procurement training strategy which has been prepared and will shortly be approved by the Government will provide the Bank with an opportunity as soon as the related budgeted operational action plan is approved, to support the country in implementing some well thought out actions within a cohesive framework to ensure sustainability and a stronger impact.

3.7. **Bank support to the management of portfolio performance and individual projects.** The Bank_will continue to encourage the application of rules and procedures as well as good practices in fiduciary management to achieve stronger performances of the projects and programmes financed by it. This will be achieved through the following activities:

- ➢ Provide executing agencies with guidance and technical assistance to enable them to resolve general or specific fiduciary management problems relating to projects and programmes;

- ➢ Persuade projects and programmes in close collaboration with Project or Programme Officers to submit audit reports within the Bank's deadline;

- ➢ Encourage and participate in fiduciary clinics and launching workshops that meet the information and training requirements of project and programme executing agencies, officials of the Ministry of Finance and external auditors;

- ➢ Take the initiative to establish harmonized fiduciary management mechanisms for projects and programmes co-financed with other TFPs; and

- ➢ Use reliable mechanisms of the national fiduciary management systems for implementation of the Bank's public investment operations.

Authors: Mamadou Yaro, Selma Ennafair RDGN 4

Annex 16

Tunisia – Country Financing Parameters

Introduction

1. This Note presents the country financing parameters for Tunisia in accordance with the Bank's policy on expenditure eligible for financing[46]. This policy enables the Bank to finance the necessary expenditure to be able to achieve the development objectives of the operations financed by the institution's resources. The Note is designed as a framework for assessing the risks concerning the viability of public finances with a view to ensuring that the Bank's resources are used appropriately and in accordance with the terms of its mandate. Moreover, the new policy offers greater flexibility in the use of loans and grants to finance expenditure.

2. **Macroeconomic context and public finance situation**. Tunisia has suffered from a lack of growth since 2011. The growth rate fell from 3.6% in 2010 to 0.8% in 2015 but could reach 1.6% in 2016. The fall in growth has been mainly due to uncertainties concerning security, the different strike actions which have affected the production rate in the mining and hydrocarbons (phosphates and gas) sector but also weak public investment. Since 2011, the composition of public expenditure is mostly focused on current expenditure. The civil service wage bill has more than doubled since 2010 as a result of recruitments and consecutive salary increases. In 2015, it accounted for 46% of the budget and 13% of GDP. This deterioration is also linked to the continuing subsidies on some staple products and energy, which represent about 16% of the annual budget. In all, current expenditure accounts for between 60 and 65% of the overall budget and between 75% and 80% of the budget net of debt servicing. The five draft budget laws have all been passed with deficits since 2011 and the cumulative financing gap stood at 42 billion dinars in 2016. For its part, the public debt increased significantly from 40.7% to 62% in 2016, i.e. an average annual growth rate of 7.4% much higher than the 1.76% economy growth rate. Moreover, 70% of outstanding debt is composed of external debt and Tunisia is exposed to an exchange rate risk since the Tunisian Dinar has lost 32% of its value since 2010.

3. **Portfolio.** The Bank Group's active portfolio currently comprises 43 operations, representing total commitments of UA 1.43 billion. There are 14 public sector operations representing 86.3 % of commitments. Tunisia's portfolio also includes twenty-five (25) technical assistance operations for a cumulative amount of UA 20.8 million. The lending portfolio's performance is deemed satisfactory overall despite slippage on the implementation of the technical assistance portfolio due to the complexity of the functioning of the public procurement system.

4. **Cost sharing**. Due to the specific macro-fiscal context described above, increased vulnerability of the economy and public finances and pressure on the budget which is expected to continue during implementation of the PSD up to 2929 concerning current expenditure, the Tunisian government's fiscal leeway and ability to increase its counterpart funding of Bank-financed operations is expected to remain limited. Consequently, in a prudential and pragmatic approach, the Bank proposes to apply two (2) rates for financing its projects and programmes: the Bank will finance 50% of the cost of projects with an immediate return in the productive sector (water, agriculture, industry and services) and 60% of projects with a high social content (education, health, employment, women, etc.) with a limited and /or gradual rate of return. The balance will be covered by the Government and/or other donors. The Tunisian Government will undertake to finance at least 10 % of all project costs.

[46] "Policy on Expenditure Eligible for Bank Group Financing", ADB/BD/WP/2007/106/Rev. 2, May 2008

5. **Financing of recurrent costs**. The Bank will not finance recurrent expenditure of projects financed by it. Such expenditure should normally be covered by the Government. However, the Bank may consider the possibility of financing them on a case-by-case basis.

6. **Financing costs in local currency**. The Bank's practice is to finance the foreign exchange costs of projects financed by it and consequently, most disbursements are made in foreign exchange. In view of the deep public finance deficit and the existence of large construction companies and the use of savings on loans, the financing of local currency costs should not be limited and actual amounts should be fixed on a project-by-project basis.

7. **Taxes and duties**. Projects financed by the Bank are not generally subject to specific taxes. The Bank consider on a case-by-case basis the possibility of financing taxes and duties for its projects. The financing parameters for Tunisia are described below.

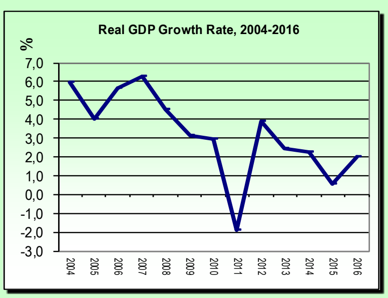
Table 3 – Country Financing Parameters

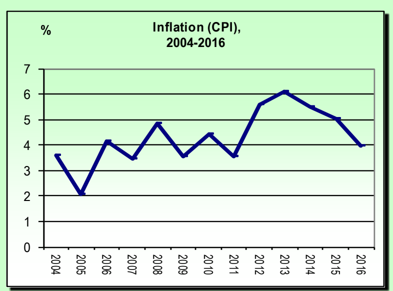
Item	Parameter	Explanation/Comments
Cost sharing. Maximum proportion of project costs that the Bank can finance.	Productive sector with a high economic rate of return (structures, public services, industries, agriculture, mines, etc.): 50% Social sector with a limited and gradual rate of return (education, health, employment, women and youth, etc.): 60%	The effective share of Bank financing will be limited to 60% of all costs for projects of a social nature and to 50% of all costs for projects in the productive sector (in particular, infrastructure). The balance will be covered by co-financing. The Government shall undertake to finance a minimum of 10% of the total project cost excluding wages and salaries
Financing of recurrent costs. Limits if necessary concerning the total amount of recurrent expenditure the Bank may finance.	Flexible	The Bank can finance some recurrent costs on a case-by-case basis
Financing of costs in local currency. The Bank's financing conditions for expenditure in local currency are met, in particular: (i) the financing requirements of the country's development programme exceed the own resources of the public sector (for example, tax and other revenue) planned borrowings on the domestic market; and (ii) the financing of expenditure in foreign exchange alone would enable the Bank to contribute to the financing of individual projects.	Yes	The financing conditions for local currency costs are met. The Bank may finance local currency costs in order to achieve the objectives of individual projects
Taxes and duties. Are there taxes and duties that the Bank would not finance?	Yes	There are no unreasonable taxes and duties. There is, however, a slight probability that the Tunisian Government may borrow to pay taxes and duties. The Bank will not finance the payment of taxes and duties by borrowings

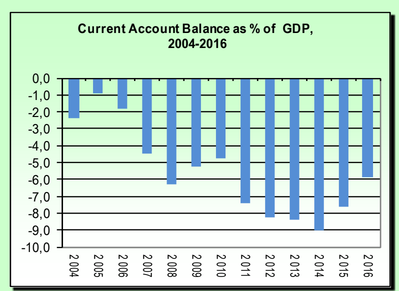
Annex 17 **TUNISIA – Macroeconomic Indicators (2000-2016)**

Tunisia
Selected Macroeconomic Indicators

Indicators	Unit	2000	2011	2012	2013	2014	2015 (e)	2016 (p)
National Accounts								
GNI at Current Prices	Million US $	22 405	43 573	45 376	46 334	...	...	...
GNI per Capita	US$	2 310	4 050	4 170	4 210	...	...	...
GDP at Current Prices	Million US $	19 443	45 811	45 044	46 257	47 604	41 280	42 572
GDP at 2000 Constant prices	Million US $	19 443	29 442	30 591	31 337	32 045	32 216	32 857
Real GDP Growth Rate	%	4,3	-1,9	3,9	2,4	2,3	0,5	2,0
Real per Capita GDP Growth Rate	%	3,3	-3,0	2,7	1,3	1,1	-0,6	0,9
Gross Domestic Investment	% GDP	27,3	23,1	24,4	22,7	23,2	21,7	21,0
Public Investment	% GDP	4,4	8,8	9,3	8,6	8,8	8,3	8,0
Private Investment	% GDP	22,9	14,3	15,2	14,1	14,4	13,5	13,0
Gross National Savings	% GDP	22,3	16,2	16,1	13,6	13,1	16,7	19,3
Prices and Money								
Inflation (CPI)	%	3,0	3,5	5,6	6,1	5,5	5,0	4,0
Exchange Rate (Annual Average)	local currency/US$	1,4	1,4	1,6	1,6	1,7	2,0	2,0
Monetary Growth (M2)	%	85,8	6,7	8,8	7,3	7,7	5,5	...
Money and Quasi Money as % of GDP	%	90,1	111,2	110,9	111,3	111,5	117,4	...
Government Finance								
Total Revenue and Grants	% GDP	23,0	26,0	26,3	26,6	26,0	21,3	20,2
Total Expenditure and Net Lending	% GDP	25,2	28,4	29,0	31,2	30,5	25,0	23,4
Overall Deficit (-) / Surplus (+)	% GDP	-2,4	-2,4	-2,7	-4,6	-4,4	-4,2	-3,9
External Sector								
Exports Volume Growth (Goods)	%	7,3	-0,2	1,4	4,7	1,4	4,8	3,7
Imports Volume Growth (Goods)	%	6,5	3,8	8,5	5,1	2,4	2,0	2,1
Terms of Trade Growth	%	-2,2	69,9	-6,0	-4,2	-3,3	-15,4	1,3
Current Account Balance	Million US $	-821	-3 386	-3 721	-3 879	-4 302	-3 136	-2 497
Current Account Balance	% GDP	-4,2	-7,4	-8,3	-8,4	-9,0	-7,6	-5,9
External Reserves	months of imports	2,4	3,5	3,8	3,3	3,2	3,8	...
Debt and Financial Flows								
Debt Service	% exports	55,7	55,5	57,7	65,4	70,4	86,1	71,0
External Debt	% GDP	52,9	48,1	54,0	55,0	59,3	60,2	58,8
Net Total Financial Flows	Million US $	660	881	2 467	1 326	1 961	...	...
Net Official Development Assistance	Million US $	222	922	1 017	710	921	...	...
Net Foreign Direct Investment	Million US $	779	1 148	1 603	1 117	1 060	...	...







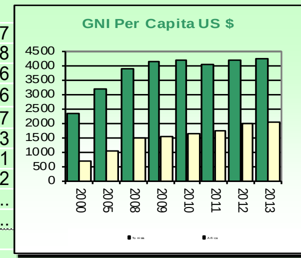
Source : AfDB Statistics Department; IMF: World Economic Outlook, October 2015 and International Financial Statistics, October 2015;
AfDB Statistics Department: Development Data Portal Database, March 2016. United Nations: OECD, Reporting System Division.

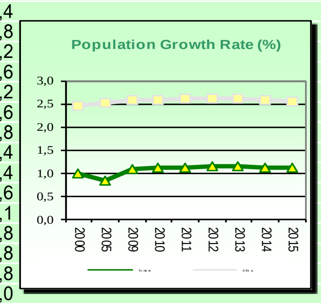
Notes: ... Data Not Available (e) Estimations (p) Projections Last Update: April 2016

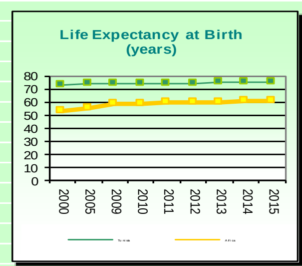
Tunisia

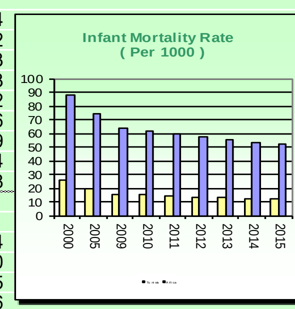
COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Tunisia	Africa	Develo-ping Countries	Develo-ped Countries
Basic Indicators					
Area ('000 Km²)	2016	164	30 067	94 638	36 907
Total Population (millions)	2016	11,4	1 214,4	3 010,9	1 407,8
Urban Population (% of Total)	2016	66,9	40,1	41,6	80,6
Population Density (per Km²)	2016	73,2	41,3	67,7	25,6
GNI per Capita (US $)	2014	4 210	2 045	4 226	38 317
Labor Force Participation *- Total (%)	2016	47,7	65,6	63,9	60,3
Labor Force Participation **- Female (%)	2016	25,1	55,6	49,9	52,1
Gender -Related Development Index Value	2007-2013	0,891	0,801	0,506	0,792
Human Develop. Index (Rank among 187 countries)	2014	96	...	...	...
Popul. Living Below $ 1.90 a Day (% of Population)	2008-2013	2,0	42,7	14,9	...
Demographic Indicators					
Population Growth Rate - Total (%)	2016	1,1	2,5	1,9	0,4
Population Growth Rate - Urban (%)	2016	1,3	3,6	2,9	0,8
Population < 15 years (%)	2016	23,5	40,9	28,0	17,2
Population >= 65 years (%)	2016	7,8	3,5	6,6	16,6
Dependency Ratio (%)	2016	45,5	79,9	52,9	51,2
Sex Ratio (per 100 female)	2016	97,6	100,2	103,0	97,6
Female Population 15-49 years (% of total population)	2016	27,0	24,0	25,7	22,8
Life Expectancy at Birth - Total (years)	2016	75,2	61,5	66,2	79,4
Life Expectancy at Birth - Female (years)	2016	77,6	63,0	68,0	82,4
Crude Birth Rate (per 1,000)	2016	17,6	34,4	27,0	11,6
Crude Death Rate (per 1,000)	2016	6,6	9,1	7,9	9,1
Infant Mortality Rate (per 1,000)	2015	12,1	52,2	35,2	5,8
Child Mortality Rate (per 1,000)	2015	14,0	75,5	47,3	6,8
Total Fertility Rate (per woman)	2016	2,1	4,5	3,5	1,8
Maternal Mortality Rate (per 100,000)	2015	62,0	495,0	238,0	10,0
Women Using Contraception (%)	2016	64,7	31,0	...	...
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2004-2013	122,2	47,9	123,8	292,3
Nurses and midwives (per 100,000 people)	2004-2013	328,0	135,4	220,0	859,8
Births attended by Trained Health Personnel (%)	2010-2015	98,6	53,2	68,5	...
Access to Safe Water (% of Population)	2015	97,7	71,6	89,3	99,5
Healthy life expectancy at birth (years)	2013	66,7	54,0	57	68,0
Access to Sanitation (% of Population)	2015	91,6	39,4	61,2	99,4
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2014	0,1	3,8	...	...
Incidence of Tuberculosis (per 100,000)	2014	33,0	245,9	160,0	21,0
Child Immunization Against Tuberculosis (%)	2014	95,0	84,1	90,0	...
Child Immunization Against Measles (%)	2014	98,0	76,0	83,5	93,7
Underweight Children (% of children under 5 years)	2010-2014	2,3	18,1	16,2	1,1
Daily Calorie Supply per Capita	2011	3 362	2 621	2 335	3 503
Public Expenditure on Health (as % of GDP)	2013	4,0	2,6	3,0	7,7
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2010-2015	113,1	100,5	104,7	102,4
Primary School - Female	2010-2015	111,4	97,1	102,9	102,2
Secondary School - Total	2010-2015	87,6	50,9	57,8	105,3
Secondary School - Female	2010-2015	94,2	48,5	55,7	105,3
Primary School Female Teaching Staff (% of Total)	2010-2015	59,3	47,6	50,6	82,2
Adult literacy Rate - Total (%)	2010-2015	81,1	66,8	70,5	98,6
Adult literacy Rate - Male (%)	2010-2015	89,7	74,3	77,3	98,9
Adult literacy Rate - Female (%)	2010-2015	72,8	59,4	64,0	98,4
Percentage of GDP Spent on Education	2010-2014	6,2	5,0	4,2	4,8
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2013	18,4	8,6	11,9	9,4
Agricultural Land (as % of land area)	2013	64,0	43,2	43,4	30,0
Forest (As % of Land Area)	2013	6,6	23,3	28,0	34,5
Per Capita CO2 Emissions (metric tons)	2012	1,9	1,1	3,0	11,6









Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators; last update : August 2016
UNAIDS; UNSD; WHO, UNICEF, UNDP; Country Reports.
*Note : n.a. : Not Applicable ; ... : Data Not Available. * Labor force participation rate, total (% of total population ages 15+)*
*** Labor force participation rate, female (% of female population ages 15+)*

Annex 19 - Tunisia : Data on the Bank Group's Active Loan Portfolio (as at 1 March 2017)									
Dpt.	**Project Name**	**Sector**	**Source**	**Approval**	**Completion**	**Approved Amount**	**Total Disbursements**	**Disbursement Rate (%)**	**Age**
PESD	NATURAL GAS TRANSMISSION AND DISTRIBUTION NETWORK DEVELOPMENT PROJECT	Energy	ADB	04/01/2015	12/31/2019	38,643,298.65	0.00	0	1.9
PISD	SOUTH TUNISIAN GAZ PIPELINE (ETAP/NAWARA)	Energy	ADB	06/26/2014	05/30/2016	55,500,876.91	55,500,876.91	10	2.7
	TOTAL - ENERGY					**94,144,175.56**	**55,500,876.91**	**59**	**1.9**
AHAI	NORTH GAFSA INTEGRATED AGRICULTURAL DEVELOPMENT PROJECT	Agriculture	ADB	02/13/2013	06/30/2019	17,303,027.93	3,874,256.51	22	4.1
AHAI	GABES INTEGRATED DEVELOPMENT PROJECT (IADP) II	Agriculture	ADB	11/26/2014	06/30/2020	16,158,360.07	3,712,758.56	23	2.3
	TOTAL - AGRICULTURE					**33,461,388.00**	**7,587,015.07**	**23%**	**3.2**
PISD	II[nd] LINE OF CREDIT TO THE BANQUE DE L'HABITAT (HOUSING BANK)	Finance	ADB	02/27/2002	02/28/2006	21,072,883.77	21,072,883.77	100	15.0
PISD	HOUSING BANK TUNISIA - LOC II	Finance	ADB	07/21/2003	03/31/2008	62,592,911.35	62,592,911.35	100	13.6
PIFD	TRADE FINANCE LINE FO CREDIT TO BH	Finance	ADB	10/19/2016		46,944,683.51	0.00	0.00	0.4
PIFD	FINANCIAL SECTOR MODERNIZATION SUPPORT PROGRAMME	Finance	ADB	07/13/2016	12/31/2017	209,686,253.03	209,686,253.03	100	0.7
	TOTAL - FINANCE					**340,296,731.66**	**293,352,048.15**	**86%**	**N/A**
PICU	ENFIDHA AIRPORT PROJECT	Transport	ADB	01/14/2009	03/31/2010	52,993,005.95	52,993,005.95	100	8.2
PICU	CONSTR. GABES-RAS-JEDIR MOTORWAY LINK	Transport	ADB	06/21/2011	12/31/2017	107,456,380.56	40,859,522.61	38	5.7
PICU	ROAD PROJECT VI	Transport	ADB	9/15/2010	12/31/2017	186,015716.75	178,133694.86	96	6.5
PICU	ROAD INFRASTRUCTURE MODERNIZATION PROJECT (PMIR)	Transport	ADB	10/28/2015	12/31/2020	112,667,240.44	5,946,326.58	5,0	1.4
PICU	ROAD INFRASTRUCTURE MODERNIZATION PROJECT (PMIR)	Transport	AGTF	10/28/2015	12/31/2020	36,084,813.39	1,877,787.34	5,0	1.4
	GRAND TOTAL - TRANSPORT					**495,217157.1**	**279,810,337.34**	**57%**	**3.8**
AHWS	RURAL DWS PROGRAMME (RDWS)	DWSS	ADB	10/12/2011	12/31/2017	74,188,248.18	65,590,897.63	88	5.4
AHWS	RURAL DRINKING WATER SUPPLY PROGRAMME (Loan)	DWSS	ADB	09/06/2016	12/31/2021	96,784,289.18	0.00	00	0.5
AHWS	TREATED WASTEWATER QUALITY IMPROVEMENT PROJECT	DWSS	ADB	01/11/2012	12/31/2017	25,389,249.67	7,741,490.46	0.30	5.2
	GRAND TOTAL – WATER AND SANITATION					**196,361,787.03**	**73,332,388.09**	**37%**	**3.7**
AHHD	INCLUSIVE REGIONAL DEVELOPMENT SUPPORT PROGRAMME (PADRI)	Social	ADB	11/02/2016	12/31/2017	140,834,050.54	140,834,050.54	100	0.4
	GRAND TOTAL - SOCIAL					**140,834,050.54**	**140,834,050.54**	**100%**	**0.4**
	GRAND TOTAL – LOAN PORTFOLIO					**1,300,315,289**	**850,416,716.1**	**65%**	**2.4**

Annex 20 - Tunisia : Data on the Bank Group's Active Grant Portfolio (as at 1 March 2017))									
Dpt.	**Project Name**	**Sector**	**Source**	**Approval**	**Completion**	**Approved Amount**	**Total Disbursements**	**Disbursement Rate (%)**	**Age**
AHAI	STUDY-RISK MANAGEMENT AND ESTABLISHMENT OF AN AGRICULTURAL INSURANCE SYSTEM	Agriculture	MIC/TAF	08/02/2016	12/31/2018	325,000.00	0.00	0.00	0.6
AHAI	PREPARATION OF ZAGHOUAN IADP AND IADP EVALUATION	Agriculture	MIC/TAF	10/27/2014	02/28/2018	390,000.00	56,934.84	0.15	2.3
	TOTAL - AGRICULTURE					**715,000.00**	**56,934.84**	**8%**	**1.5**
PITD	STRUCTURAL TRANSFORMATION AND SUPPORT TO GROWTH NICHES	Industry and Mines	MIC/TAF	08/14/2015	02/28/2018	798,310.00	0.00	0.00	1.5
PITD	PROJECT TO SUPPORT THE DESIGN OF AN INNOVATIVE INDUSTRIAL POLICY	Industry and Mines	MIC/TAF	08/14/2015	09/30/2017	791,380.00	0.00	0.00	1.5
	TOTAL – INDUSTRY AND MINES					**1,589,690.00**	**0.00**	**0%**	**1.5**
PISD	TUNISIA : INSTITUTIONAL SUPPORT TO BFPME	Finance	FAPA	08/05/2013	12/31/2017	703,011.11	20,098.36	0.03	3.6
	TOTAL – FINANCE					**703,011.11**	**20,098.36**	**3%**	**N/A**
PICU	ROAD SAFETY STRATEGY STUDY	Transport	MIC/TAF	09/30/2013	12/31/2017	1,000,000.00	7,951.98	0.01	3.4
PICU	STUDY ON NATIONAL TRANSPORT MASTER PLAN TO 2030	Transport	MIC/TAF	07/14/2014	06/30/2018	800,000.00	90,391.46	0.11	2.6
PICU	ROAD INFRASTRACTURE MODERNIZATION PROJECT (PMIR)	Transport	MIC/TAF	10/28/2015	12/31/2020	1,200,000.00	0.00	0.00	1.3
	TOTAL - TRANSPORT					**3,000,000.00**	**98,343.44**	**3%**	**2.5**
AHWS	RURAL DRINKING WATER SUPPLY PROGRAMME	DWSS	RWSSI	09/06/2016	12/31/2021	782,411.39	0.00	0.00	0.5
AHWS	PREPARATION OF THE TUNISIA WATER VISION AND STRATEGY 2050	DWSS	AWF	06/20/2016	12/31/2019	1,052,343.32	0.00	0.00	0.7
	TOTAL – WATER AND SANITATION					**1,834,754.71**	**0.00**	**0%**	**0.6**
ECGF	STATISTICAL CAPACITY BUILDING PROGRAMME PHASE II (SCB II)	Multisector	MIC/TAF	03/30/2011	12/31/2014	244,679.43	244,679.43	100	5.9
ECGF	PROJECT TO SUPPORT OPERATIONALISATION OF THE PUBLIC PROCUREMENT REFORM ACTION PLAN	Multisector	MIC/TAF	12/27/2013	12/31/2017	530,100.00	219,454.52	0.41	3.2
PICU	OPERATIONALISING PPPS IN TUNISIA (PPP ADVISORY)	Multisector	MIC/TAF	06/14/2013	06/30/2018	789,000.00	81,438.03	0.10	3.7
	TOTAL - MULTISECTORS					**1,563,779.43**	**545,571.98**	**35%**	**4.3**
AHHD	HEALTH SERVICES EXPORT SUPPORT PROJECT	Social	MIC/TAF	06/03/2015	06/30/2018	296,373.00	0.00	0.00	1.7
	TOTAL - SOCIAL					**296,373.00**	**0.00**	**0%**	**1.7**
	TOTAL - GRANTS (MIC/TAF+AWF+RWSSI+FAPA)					**9,702,608.25**	**720,948.62**	**7%**	**2.0**

Annex 20 - Tunisia : Data on the Bank Group's Active Grant Portfolio (as at 1 March 2017)) (cont.)									
Dpt.	**Project Name**	**Sector**	**Source**	**Approval**	**Completion**	**Approved Amount**	**Total Disbursements**	**Disbursement Rate (%)**	**Age**
RDGN	SOUK-AT-TANMIA I	Social	TFT	17/12/2012	31/12/2017	647,000	540,501.40	83.5	4.2
RDGN	SOUK-AT-TANMIA II	Social	TFT	30/12/2015	31/12/2018	1,975,102	1,214,895.39	61.5	1.3
RDGN	SOUK-AT-TANMIA III	Social	TFT	-	31/12/2019	1,169,180	93,849.62	8.0	N/A
AHHD	TUNISIA EMPLOYMENT PROMOTION SUPPORT PROHRAMME	Social	TFT	12/17/2012	31/12/208	66,000	59,661.73	90.40	4.2
AHHD	SOCIAL ASSISTANCE SYSTEM PERFORMANCE EVALUATION	Social	TFT	4/5/2013	31/12/2017	249,000	203,622.84	81.78	3.9
RDGN	PORTFOLIO IMPLEMENTATION SUPPORT	Multisector	TFT	4/5/2013	31/12/2018	351,312	300,738.29	85.60	3.9
AHHD	STUDY ON MOBILITY OF LABOUR IN NORTH AFRICA	Social	TFT	4/5/2013	30/06/2018	120,000	20,148.98	16.79	3.9
AHHD	WORK READINESS PROJECT	Social	MENA TF	-	28/02/2018	2,560,000	0.00	0.0	
RDGN	OPERATIONALISATION OF PPP	Multisector	MENA TF	2/20/2013	30/06/2018	1,500,000	48,611.41	3.24	4.1
OSGE	DOMESTIC RESOURCE MOBILIZATION SUPPORT	Multisector	MENA TF	12/5/2013	30/06/2018	2,943,900	550,360.	18.69	3.3
RDGN	SUPPORT TO ECONOMIC GOVERNANCE AND GROWTH	Multisector	MENA TF	06/11/2014	30/08/2017	2,298,900	0.00	0.00	2.8
RDGN	SUPPORT TO ECONOMIC AND SOCIAL REFORMS	Multisector	MENA TF	30/05/2016	30/06/2019	4,607,859	0,00	0,00	
	TOTAL GRANT PROJECTS (TFT + MENA TF)					**18,488,253.46**	**3,032,389.66**	**16%**	
	GRAND TOTAL GRANTS					**28,190,861.71**	**3,753,338.28**	**13%**	
	TOTAL LOAN AND GRANT PORTFOLIO					**1,328,506,152**	**854,170,054.4**	**64%**	

Annex 21 – 2016 Portfolio Performance Improvement Plan (PPIP) – Generic Problems

PROJECT/PROBLEMS	RECOMMENDED ACTIONS	RESPONSIBLE STRUCTURES	TIMELINE	OUTCOME MONITORING INDICATORS
1. Audit/Reports				
Delay in the production and submission of audit reports to the Bank	Ensure periodic planning and monitoring by the executing agencies of the preparation of periodic and annual project financial reports and coordination with the auditors to guarantee the preparation and submission of audit reports within the stipulated timeframe, Improve the programming and conduct of audit missions by CGF taking into account the list communicated by the Bank of audit reports due each year. Ensure that MDCI, in collaboration with the Bank, monitors the submission of audit reports within the stipulated timeframes	Executing Agencies and Oversight Ministries CGF/Ministry of Finance/MDICI/ADB	30 June 2017 30 June 2017	The number of audit reports submitted within the deadlines for the country in general and by sector (target: 80%). Percentage of audit reports produced by CGF in relation to the audit reports due for the year under consideration and officially assigned to CGF (target: 100%)
The audit performed by CGF does not meet the independence criteria applicable to financial statement audit missions provided for under the Code of Ethics of the International Ethics Standards Board for Accountants and of INTOSAI.	Pursue dialogue with the public authorities in order to reach a consensus on the external auditing of projects financed by donors and provide the Court of Auditors with sufficient resources to perform this task	ADB/MDCI/Court of Auditors/ Ministry of Finance	End-2017	Audit missions assigned to the Court of Auditors
2. Submission of project activity reports				

Irregular submission of activity reports.	Systematize the submission of two (2) half-year project activity reports each year	Executing Agencies/Oversight Ministries/ MDCI	Ongoing	Compliance of executing agencies with the agreed timeframes for the preparation and submission of 100% of half-year activity reports to AfDB. Quarterly water sector activity reports were submitted on 31/01/2017 for PAQEE and 14/02/2017 for PAEPR I. These concerned the 4th quarter of 2016 (and due on 31/01/2017).
***3.* Poor performance of technical assistance and some operations**				
Delays in commencement of operations	Ensure signature and effectiveness for 1st disbursement as soon as possible.	MDCI/ADB	All new projects from 2017	Letters of agreement are prepared within two weeks of TA approval and are immediately singed by both parties.
	From project start-up designate a single project preparation and implementation team. This will help to strengthen ownership and responsibility for achieving results	MDCI and Institutions concerned	From 2017	100% of technical assistance teams are implemented by the same tem that designed the project and apart from exceptional cases at least 90% of new operations comply with the implementation schedule
	Attach greater importance to the quality of consultants' Terms of Reference (ToR) and achieve a balance between the allocated budget and ToR requirements	MDCI and Institutions concerned/ADB	From 2017	AfDB provides the Government with systematic support to ensure the quality of consultants' ToR
	Ensure that launching missions are carried out for all new operations	ADB/ MDCI and Institutions concerned	From 2017	Launching mission carried out for each operation no later than two (2) months after its effectiveness

Large number and cumbersome nature of formalities required to implement lines of credit	Eliminate non-productive requirements and provide support to institutions that are the direct beneficiaries of lines of credit in the areas of environmental procedures and assessment as well as reporting; In the case of lines of credit jointly financed with other development partners, see to the harmonization of procedures and mechanisms envisaged for their implementation.	Executing Agencies /ADB/MDICI	Ongoing	The line of credit implementation rate rises significantly.
Lack of harmonization of Bank's rules and procedures for the procurement of goods and works with Tunisian regulations	Recommend more flexible measures for the procurement of goods and services planned for operations	HAICOP/ADB	Improvement of implementation rate of projects whose disbursement rate is below 15%	Only one ongoing project has disbursement rate below 15% after two years
Programme activity implementation rates are slowed down by procurement procedure control systems	Facilitate communications with expenditure controllers; Ensure the periodic upgrading of some controllers through training workshops in order to enhance efficiency.	ADB/Executing Agencies/MDICI and Supreme Control Bodies	Ongoing	Expenditure commitment-related delays are reduced by 30%

Annex 22

MATRIX OF ANSWERS TO CODE COMMENTS CONCERNING THE 2014-2016 ICSP COMPLETION REPORT AND 2016 PORTFOLIO PERFORMANCE REVIEW

COMMENTS		ANSWERS
1.	Cumbersome disbursement procedure	The cumbersome nature of procurement procedures chiefly concerns the grant portfolio. It is to a great extent linked to the weak capacity of executing agencies responsible for grants and the confusion, if not, overlapping between the rules of the Bank and those of the country. To resolve this, the Bank's procurement experts, assisted by a consultant provided immense support to the portfolio's technical assistance operations by providing them with specific support. Thus, as mentioned in the 2015 Portfolio Performance Review: *''considerable progress has been made towards reducing the time taken to recruit consultants and contractors for technical assistance operations and studies due to the sustained support provided by the Bank's procurement experts. Lead times were therefore reduced from sixteen (16) months in 2013 to eight (8) months in 2015. The Bank and Government are pursuing their efforts to reduce them further, in particular in the case of technical assistance operations and studies where performance must be improved''*. It is also worth noting that, pursuant to the Bank's new procurement policy, provided certain conditions are met, the national system may be used in certain projects as well as for grants financed under the Middle Income Country Technical Assistance Fund (MIC/TAF). A Bank Country Procurement Assessment of the Tunisian system was carried out in consultation with the High Authority for Public Procurement (HAICOP) and the report is currently being finalized. On the basis of the initial elements of the assessment, a first project approved in the last quarter of 2016 (PAEPR II) has already benefited from this modality.
2.	Constraint linked to the clearing of rights-of-way in road infrastructure projects	The problem concerning the vacation of rights-of-way linked to the implementation of infrastructure projects arose after the 2011 Revolution. Under the former regime, there were very limited opportunities for owners to refuse expropriation by central government or challenge the central government's price for the purchase of expropriated land. The 2011 Revolution and gradual spread of judicial control have changed the established order. Owners who had accepted a price they considered too low before 14 January 2011 have decided to challenge it before the courts. After 14 January, it became common practice to increase land prices. Since the court action has a suspensory effect, many road infrastructure projects implemented with external financing have been frozen[47] until an amicable solution can be found resulting, in most cases, in higher prices being paid to landowners. Aware of the negative impact of this situation de on public expenditure performance, the Government has undertaken to draft a Bill that will improve control over the clearing of rights-of-way and prevent legal action taken from penalizing the implementation of public works. To that end, on 11 July 2016 the Assembly of the Representatives of the People (ARP) enacted Law 2016-53 relating

[47] This was the case of the Ras-Jdir motorway construction project (age: 5.8 years) cofinanced by the Bank and which has been suspended many times since it was launched.

	COMMENTS	ANSWERS
		to expropriation in the public interest[48] which limits claims by landowners by stipulating that the filing of an appeal shall not affect the implementation of public works. The law thus provides for the depositing by the State of provisional compensation that the expropriated person may choose to challenge. However, such a challenge cannot call into question either the appropriateness or implementation rate of the works linked to the expropriation. From a legal standpoint this represents a major step forward. However, the law's implementing decrees have not yet been published.
3.	Law on PPP	The subject of PPP has become a key issue since the Revolution. The establishment of PPP is a way of circumventing the severe budget constraint that has existed since 2011 and the stagnation of resources allocated to public investment. However, this is an area which remains highly controversial in Tunisian society. Since the 1960s, the Tunisian economic model has been built on the basis of a strong central government presence in the economy and many sectors remain under the control of public enterprises[49] which enjoy monopoly positions. The implementation of public investment programmes based on a partnership with the private sector is an innovation in the Tunisian economic landscape and has been the subject of considerable reticence shown by the oversight administrations and public enterprises as well as political parties. This reticence is the reason for the slow development of the law that has governed the development of PPP in Tunisia since 2011. However, following over three years of discussions and revisions, the ARP on 27 November 2015 enacted a law on partnership contracts (Law 2015-49 of 27/11/2015) (i.e. PPP). It should be noted that this law applies to all PPP projects except for local government to which it is expected to be applicable after the forthcoming local elections. This law concerning PPP complements the 2008 Law on concessions. **The implementing decrees for this Law were adopted in June 2016.** It should be pointed out that the 2016-2020 Strategic Development Plan (SDP), which includes one investment programme of 120 billion dinars out of five (5) estimates that 60% of that programme will be financed in the form of PPP.

i Source : Ministère de l'énergie.
ii Le code fiscal et le code des investissements distinguent les entreprises totalement exportatrices (ETE) et lautres que totalement exportatrices (EATE).

48 Article 14 of the Law stipulates that a National Commission presided over by the Ministry responsible for State Land shall determine the financial value of buildings required for the implementation of public projects as well as the modalities for its revision and updating.

49 In addition to the banking sector, the main public monopolies concern the air transport sector (TUNISAIR), port handling (STAM), electricity (STEG) and water (SONEDE). Only the telecoms sector has been partly liberalized including the 35% privatization of the capital of TUNISIE TELECOM, the legacy operator in 2006 and opening up of the sector to competition. This privatization did, however, create a strong social movement.